

TELEFONICA BRASIL S.A.
Form 6-K
March 30, 2015

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE
SECURITIES EXCHANGE ACT OF 1934**

For the month of March, 2015

Commission File Number: 001-14475

TELEFÔNICA BRASIL S.A.
(Exact name of registrant as specified in its charter)

TELEFONICA BRAZIL S.A.
(Translation of registrant's name into English)

Av. Eng° Luís Carlos Berrini, 1376 - 28° andar
São Paulo, S.P.
Federative Republic of Brazil
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes

No

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes

No

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TELEFÔNICA BRASIL S.A.

QUARTERLY INFORMATION

DECEMBER 31, 2014

Shareholders and Management of

Telefônica Brasil S.A.

São Paulo – SP

Introduction

We have examined the individual and consolidated financial statements of Telefônica Brasil S.A., identified as Parent Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2014 and the respective statements of income, of comprehensive income, of changes in shareholders' equity and of cash flows for the period then ended, as well as a summary of the main accounting practices and other notes.

Management's responsibility on the financial statements

The Entity's management is responsible for the preparation and adequate presentation of the individual financial statements in accordance with the accounting practices adopted in Brazil and the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board – IASB, and in accordance with the accounting practices adopted in Brazil, as well as for the internal controls it has determined as necessary to allow the preparation of financial statements free of material misstatements caused by fraud or error.

Responsibility of independent auditors

Our responsibility is to issue an opinion on these financial statements based on our audit, conducted in accordance with Brazilian and international audit standards. Those standards require the meeting of ethical demands by the auditors and that the audit be planned and executed in order to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit involves the execution of selected procedures to obtain evidence related to the amounts and disclosures presented in the financial statements. The selected procedures depend on the auditor's professional judgment, including the assessment of risks of material misstatement in the financial statements, regardless if caused by fraud or error. In this risk assessment, the auditor considers the internal controls which are relevant to the preparation and adequate presentation of the financial statements of the Company in order to plan the audit procedures which are appropriate to the circumstances, but not to express an opinion on the effectiveness of the Company's internal controls. An audit also includes the assessment of adequacy of the accounting practices used and the reasonableness of the accounting estimates made by the Management, as well as the evaluation of the presentation of the financial statements as a group.

We believe that the audit evidence obtained is sufficient and appropriate to serve as basis for our opinion.

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above adequately present, in all relevant aspects, the financial position of Telefônica do Brasil S.A. as at December 31, 2014, the performance of its operations and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above adequately present, in all relevant aspects, the consolidated financial position of Telefônica do Brasil S.A. as at December 31, 2014, the consolidated performance of its operations and consolidated cash flows for the year then ended, in accordance with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board – IASB and with accounting practices adopted in Brazil.

Other matters

Statement of Value Added

We have also examined the individual and consolidated statement of value added (SVA), referring to the period ended on December 31, 2014, prepared under the Company's Management responsibility, the presentation of which is required according to the Brazilian corporate law for listed companies, and, as supplementary information by the IFRSs, which do not require the presentation of the SVA. These statements were submitted to the same audit procedures previously described and, in our opinion, they are adequately presented, in all material aspects, regarding the financial statements as a whole.

Audit of previous year's comparative amounts

The examination on the financial statements of the period ended on December 31, 2013 was conducted under the responsibility of other independent auditors, who issued an audit report with no changes, dated February 25, 2014.

São Paulo, February 12, 2015.

Clóvis Ailton Madeira

Assurance Partner

Grant Thornton Auditores Independentes

TELEFÔNICA BRASIL S. A.
Balance sheets
December 31, 2014 and 2013
(In thousands of reais)

ASSETS	Note	Company		Consolidated		LIABILITIES
		12.31.14	12.31.13	12.31.14	12.31.13	
CURRENT ASSETS		14,754,381	15,595,493	15,517,368	15,899,396	CURRENT LIABILITIES
Cash and cash equivalents	4	3,835,304	6,311,299	4,692,689	6,543,936	Personnel, so
Trade accounts receivable, net	5	6,470,764	5,541,023	6,724,061	5,802,859	Trade account
Inventories, net	6	458,488	469,586	479,801	505,615	Taxes, charge
Taxes recoverable	7.1	2,163,404	2,168,797	2,202,662	2,191,962	Dividends and
Judicial deposits and garnishments	8	202,169	166,928	202,169	166,928	Provisions
Prepaid expenses	9	300,567	254,743	303,551	257,286	Deferred reve
Dividends and interest on equity	18	174,726	60,346	-	1,140	Loans, financi
Financial instruments	33	613,939	89,499	613,939	89,499	Debentures
Other assets	10	535,020	533,272	298,496	340,171	Financial instr Authorization
NONCURRENT ASSETS		58,382,747	53,982,379	57,547,920	53,604,442	Grouping of ca Other liabilities
Short-term investments pledged as collateral		125,343	106,239	125,353	106,455	
Trade accounts receivable, net	5	190,288	160,478	299,405	257,086	
Taxes recoverable	7.1	340,205	368,388	340,205	368,388	NONCURREN
Deferred taxes	7.2	40,704	-	144,817	210,294	Personnel, so
Judicial deposits and garnishments	8	4,514,783	4,123,584	4,543,056	4,148,355	Taxes, charge
Prepaid expenses	9	24,346	24,879	26,223	25,364	Provisions
Financial instruments	33	152,843	329,652	152,843	329,652	Deferred reve
Other assets	10	94,703	127,567	94,925	127,793	Deferred taxes
Investments	11	1,445,014	1,076,696	79,805	86,349	Loans, financi
Property and equipment, net	12	20,381,731	18,377,905	20,453,864	18,441,647	Debentures
Intangible assets, net	13	31,072,787	29,286,991	31,287,424	29,503,059	Financial instr Post-Retireme Authorization Other liabilities
						EQUITY
						Capital
						Capital reserv
						Income reserv
						Premium on a
						non-controlling
						Other compre
						Proposed add
TOTAL ASSETS		73,137,128	69,577,872	73,065,288	69,503,838	TOTAL LIABI

TELEFÔNICA BRASIL S. A.
Income statements
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Note	Company		Consolidated	
		12.31.14	12.31.13	12.31.14	12.31.13
OPERATING REVENUE, NET	23	32,993,687	23,189,261	34,999,969	34,721,897
Cost of sales and services	24	(16,286,314)	(12,452,247)	(17,222,675)	(17,542,167)
GROSS PROFIT		16,707,373	10,737,014	17,777,294	17,179,730
OPERATING INCOME (EXPENSES)		(12,603,848)	(8,335,501)	(12,668,265)	(12,247,456)
Selling expenses	24	(10,403,171)	(6,591,404)	(10,466,725)	(9,686,170)
General and administrative expenses	24	(1,773,582)	(1,313,365)	(1,803,803)	(2,177,891)
Other operating income	25	482,788	379,922	510,628	575,959
Other operating expenses	25	(909,883)	(810,654)	(908,365)	(959,354)
OPERATIONAL INCOME		4,103,525	2,401,513	5,109,029	4,932,274
Financial income	26	1,869,331	1,243,109	1,983,386	1,748,277
Financial expenses	26	(2,341,430)	(1,512,178)	(2,345,381)	(1,963,037)
Equity pickup	11	742,628	1,913,508	6,940	(55,150)
INCOME BEFORE TAXES		4,374,054	4,045,952	4,753,974	4,662,364
Income and social contributions taxes	27	562,605	(330,007)	182,685	(946,419)
NET INCOME FOR THE YEAR		4,936,659	3,715,945	4,936,659	3,715,945
Basic and diluted earnings per share – common	28	4.12	3.10		
Basic and diluted earnings per share – preferred	28	4.53	3.41		

TELEFÔNICA BRASIL S. A.
Statements of changes in equity
Years ended December 31, 2014 and 2013
(In thousands of reais)

			Capital reserve		
	Capital	Premium on acquisition of interest from non-controlling shareholders	Special goodwill reserve	Other capital reserve	Treasury stock
Balances at December 31, 2012	37,798,110	(70,448)	63,074	2,735,930	(112,107)
Additional dividend proposed for year 2012	-	-	-	-	-
Unclaimed dividends and interest on equity	-	-	-	-	-
Income tax return adjustment – government grants	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Net income for the year	-	-	-	-	-
Income allocation:					
Legal reserve	-	-	-	-	-
Interim interest on equity	-	-	-	-	-
Interim dividends	-	-	-	-	-
Additional dividend proposed	-	-	-	-	-
Saldos em 31 de Dezembro de 2013	37,798,110	(70,448)	63,074	2,735,930	(112,107)
Additional dividend proposed for year 2013	-	-	-	-	-
Unclaimed dividends and interest on equity	-	-	-	-	-
Income tax return adjustment – government grants	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Net income for the year	-	-	-	-	-
Income allocation:					
Legal reserve	-	-	-	-	-
Interim interest on equity	-	-	-	-	-
Additional dividend proposed	-	-	-	-	-
Balances at December 31, 2014	37,798,110	(70,448)	63,074	2,735,930	(112,107)
Outstanding shares (thousands)					
Book value per shares (VPA) - Company					

TELEFÔNICA BRASIL S. A.
Statements of cash flows
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Company		Conso
	12.31.14	12.31.13	12.31.14
Net cash from operating activities	8,485,411	6,596,380	9,384,219
Cash from operations	10,900,855	8,409,235	12,058,587
Income before taxes	4,374,054	4,045,952	4,753,974
Depreciation and amortization	5,273,256	4,135,668	5,295,589
Exchange variations on loans	96,036	70,612	96,036
Monetary gains	(2,437)	135,624	(4,990)
Equity pickup	(742,628)	(1,913,508)	(6,940)
Loses (gains) on write-off/disposal of goods	39,662	(46,235)	37,934
Estimated for impairment of trade accounts receivable	832,184	480,373	896,336
Provision (reversal) of accounts payable	(198,477)	498,835	(234,967)
Estimated loses (write-offs and reversals) for impairment of inventory items	(25,458)	(14,728)	(29,062)
Pension plan and other post-employment benefits	33,690	27,106	33,691
Provisions for tax, labor, civil and regulatory demands	546,191	493,965	546,204
Interest expenses	662,944	489,145	662,944
Provision for desmobiligation	10,931	3,268	10,931
Provision for customer loyalty program	907	2,154	907
Others	-	1,004	-
Changes in operating assets and liabilities:	(2,415,444)	(1,812,855)	(2,674,368)
Trade accounts receivable	(1,791,735)	(870,569)	(1,859,857)
Inventories	36,556	15,997	54,876
Taxes recoverable	(219,466)	(75,609)	(235,559)
Prepaid expenses	61,296	494,149	59,463
Other current assets	(12,862)	(164,638)	30,561
Other noncurrent assets	33,062	(109,687)	29,612
Personnel, social charges and benefits	258,834	16,629	260,109
Trade accounts payable	496,976	(522,289)	539,136
Taxes, charges and contributions	618,024	229,493	617,886
Interest paid	(800,302)	(501,335)	(800,302)
Income and social contribution taxes paid	(520,740)	-	(782,860)
Other current liabilities	(531,236)	(343,670)	(538,693)
Other noncurrent liabilities	(43,851)	18,674	(48,740)
Net cash from investing activities	(7,333,582)	1,041,711	(7,607,642)
Future capital contribution in subsidiaries	-	(85,250)	-
Acquisition of fixed and intangible assets (net of donations)	(7,504,464)	(3,814,802)	(7,535,011)

Proceeds from disposal of property and equipment items	19,856	47,437	21,128
Redemption of (short-term) investments in guarantee	4,567	267,220	4,567
Redemption (realization) of judicial deposits	(105,228)	(67,098)	(104,707)
Dividends and interest on equity received	251,687	1,323,026	6,381
Effect cash and cash equivalent effect by merger/spin-off	-	3,371,178	-
Net cash from financing activities	(3,627,824)	(4,406,074)	(3,627,824)
Payment of loans, financing, and debentures	(1,563,272)	(2,111,360)	(1,563,272)
Loans and debentures raised	318,573	2,211,138	318,573
Net payment of derivative agreements	63,741	29,956	63,741
Payment referring to group of shares	(245)	(289)	(245)
Dividends and interest on equity paid	(2,446,621)	(4,535,519)	(2,446,621)
Increase (decrease) in cash and cash equivalents	(2,475,995)	3,232,017	(1,851,247)
Cash and cash equivalents at beginning of year	6,311,299	3,079,282	6,543,936
Cash and cash equivalents at end of year	3,835,304	6,311,299	4,692,689
Changes in cash and cash equivalents for the year	(2,475,995)	3,232,017	(1,851,247)

TELEFÔNICA BRASIL S. A.
Statements of comprehensive income
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Company		Conso
	12.31.14	12.31.13	12.31.14
Net income for the year	4,936,659	3,715,945	4,936,659
Gains (losses) on derivative transactions	335,169	(5,424)	335,169
Taxes on gains (losses) on derivative transactions	(113,958)	1,844	(113,958)
	221,211	(3,580)	221,211
Unrealized losses in investments available for sale	(7,643)	(13,466)	(7,643)
Taxes on unrealized losses in investments available for sale	2,599	4,578	2,599
	(5,044)	(8,888)	(5,044)
Accumulated adjustments of conversion of foreign currency transactions	(551)	11,525	(551)
Other net comprehensive income to be reclassified to P&L in subsequent years	215,616	(943)	215,616
Actuarial gains (losses) and limitation effect of the surplus plan assets	(55,343)	18,993	(55,343)
Taxes on actuarial gains (losses) and limitation effect of the surplus plan assets	18,817	(6,458)	18,817
	(36,526)	12,535	(36,526)
Interest held in comprehensive income of subsidiaries		1,729	-
Other net comprehensive income that will not be reclassified to P&L in subsequent years	(36,526)	14,264	(36,526)
Comprehensive income for the year, net of taxes	5,115,749	3,729,266	5,115,749

TELEFÔNICA BRASIL S. A.
Statements of value added
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
Revenues	44,918,310	30,949,078	47,303,636	46,916,669
Goods and services sold	45,083,020	30,999,167	47,504,654	47,041,525
Other revenues	667,474	430,284	695,318	616,418
Provision for impairment of trade accounts receivable	(832,184)	(480,373)	(896,336)	(741,274)
Input products acquired from third parties	(17,787,621)	(12,927,165)	(18,818,226)	(18,277,910)
Cost of goods and products sold and services rendered	(9,674,776)	(7,815,416)	(10,685,880)	(10,714,027)
Materials, energy, third-party services and other expenses	(8,101,062)	(5,166,303)	(8,125,895)	(7,683,887)
Loss/recovery of assets	(11,783)	54,554	(6,451)	120,004
Gross value added	27,130,689	18,021,913	28,485,410	28,638,759
Retentions	(5,273,256)	(4,135,668)	(5,295,589)	(5,643,310)
Depreciation and amortization	(5,273,256)	(4,135,668)	(5,295,589)	(5,643,310)
Net value added produced	21,857,433	13,886,245	23,189,821	22,995,449
Value added received in transfer	2,611,263	3,156,617	1,989,630	1,693,127
Equity pickup	742,628	1,913,508	6,940	(55,150)
Financial income	1,868,635	1,243,109	1,982,690	1,748,277
Total value added to be distributed	24,468,696	17,042,862	25,179,451	24,688,576
Distribution of value added	(24,468,696)	(17,042,862)	(25,179,451)	(24,688,576)
Personnel, social charges and benefits	(2,832,181)	(2,002,970)	(2,855,235)	(2,788,341)
Direct compensation	(2,039,202)	(1,458,843)	(2,055,234)	(1,951,750)
Benefits	(658,993)	(439,614)	(664,727)	(698,907)
FGTS	(133,986)	(104,513)	(135,274)	(137,684)
Taxes, charges and contributions	(12,563,110)	(8,718,867)	(13,241,637)	(14,569,191)
Federal	(3,016,423)	(2,698,203)	(3,579,958)	(4,887,840)
State	(9,483,392)	(5,955,657)	(9,496,466)	(9,550,947)
Municipal	(63,295)	(65,007)	(165,213)	(130,404)
Remuneration of third-party capital	(4,136,746)	(2,605,080)	(4,145,920)	(3,615,099)
Interest	(2,336,538)	(1,486,003)	(2,340,098)	(1,934,369)
Rent	(1,800,208)	(1,119,077)	(1,805,822)	(1,680,730)
Equity remuneration	(4,936,659)	(3,715,945)	(4,936,659)	(3,715,945)
Interest on Equity (IOE)	(2,092,000)	(1,738,000)	(2,092,000)	(1,738,000)
Dividends	-	(746,000)	-	(746,000)

Retained earnings

(2,844,659) (1,231,945) (2,844,659) (1,231,945)

Telefônica Brasil S. A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

(In thousands of reais, unless otherwise stated)

1) OPERATIONS

a) Background information

Telefônica Brasil S.A. (Company or Telefônica Brasil) is a publicly-traded corporation operating in telecommunication services and in the performance of activities that are necessary or useful in the rendering of such services, in conformity with the concessions, authorizations and permissions it has been or granted. The Company, headquartered at Avenida Engenheiro Luiz Carlos Berrini, nº 1376, in the city and State of São Paulo, Brazil, is a member of Telefónica Group (Group), the telecommunications industry leader in Spain, also being present in various European and Latin American countries.

At December 31, 2014 and 2013, Telefónica S.A., holding company of the Group located in Spain, held a total of 73.81% direct and indirect interest in the Company, being 91.76% of common shares and 64.60% of preferred shares (See Note 22).

The Company is listed in the Brazilian Securities and Exchange Commission (CVM) as a publicly-held company under Category A (issuers authorized to trade any marketable securities) and has shares traded on the São Paulo Stock Exchange (BM&FBovespa). It is also listed in the US Securities and Exchange Commission (SEC), and its American Depositary Shares (ADS), classified as level II, backed by preferred shares only and traded on the New York Stock Exchange (NYSE).

b) Operations

The Company is primarily engaged in the rendering of land-line telephone and data services in the state of São Paulo, under Fixed Switched Telephone Service Concession Arrangement (STFC) and Multimedia Communication Service (SCM) authorization, respectively. Also, the Company is authorized to render STFC services in Regions I and II of the General Service Concession Plan (PGO) and other telecommunications services, such as SCM (data communication, including broadband internet), SMP

(Personal Communication Services) and SEAC (Conditional Access Audiovisual Services) (especially by means of DTH and cable technologies).

Service concessions and authorizations are granted by Brazil's Telecommunications Regulatory Agency (ANATEL), under the terms of Law No. 9472 of July 16, 1997 - General Telecommunications Law ("Lei Geral das Telecomunicações" - LGT), amended by Laws No. 9986 of July 18, 2000 and No. 12485 of September 12, 2011. Operation of such concessions and authorizations is subject to supplementary regulations and plans issued.

b.1) STFC service concession arrangement

The Company is the grantee on an STFC concession to render land-line services in the local network and national long distance calls originated in sector 31 of Region III, which comprises the state of São Paulo (except for cities within sector 33), as established in the General Service Concession Plan (PGO).

The Company's current STFC service concession arrangement is effective until December 31, 2025, and may be subject to reviews on December 31, 2015 and December 31, 2020.

In accordance with the service concession arrangement, every two years, during the arrangement's 20-year term, the Company shall pay a fee equivalent to 2% of its prior-year STFC revenue, net of applicable taxes and social contributions (Note 21).

Telefônica Brasil S. A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

(In thousands of reais, unless otherwise stated)

b.2) SMP authorization agreement

Frequency authorizations granted by ANATEL for mobile telephone services may be renewed only once, over a 15-year period, through payment, every two years after the first renewal, of fees equivalent to 2% of the Company's prior-year revenue, net of taxes and social contributions, related to the application of the Basic and Alternative Plans of Service (Note 21).

In years 2014 and 2013, the Company participated in auctions for acquisition of SMP licenses, conducted by ANATEL, with the following outcomes:

- In the auction for sale of national 700MHz frequency, held by ANATEL at September 30, 2014, in compliance with Bidding No. 2/2014 SOR/SPR/CD ANATEL, the Company won lot 3 among the others offered lots.

On December 08, 2014, the Authorization Term signed with ANATEL was published on the Federal Official Gazette (DOU). Total amount of this license was R\$2,770,320, including:

§ R\$1,657,502 referring to the total amount of the 700 MHz license, paid at the same date of the Authorization Term signature.

§ R\$1,112,818 (non cash transaction, adjusted at present value), referring to the installments of the Company's responsibility amount from the contract signed with ANATEL, which the winning carriers shall set up, within 90 days, the TV and RTV Channels Digitalization and Redistribution Process Administrating Entity (EAD), which shall be responsible for operating all TV and RTV channel redistribution procedures, and for settling issues referring to the radio communication systems. The funds for these procedures shall be transferred by carriers in 4 annual installments, restated at IGP-DI index.

The amounts of the Authorization Term described above were recorded as: (i) licenses in intangible assets, amortized by the licenses' remaining term, stipulated in the Authorization Term (Note 13) and (ii) authorization licenses in current and non-current liabilities, for the remaining amounts to be paid.

Accordingly, the Company will increase its capacity to provide services with fourth generation (4G) technology throughout the Brazilian territory, and will operate in the frequency range of 700MHz, with band of 10+10 MHz, in addition to 2.5 GHz frequency, with band of 20+20MHz acquired in bidding of year 2012.

- On August 2013, the Company, together with ANATEL, entered into the authorization terms for use of radiofrequencies blocks, with no exclusivity, under primary character, as a consequence of "L" broad realignment under frequencies of 1975MHz and 1980MHz for transmission of mobile stations and 2165MHz to 2170MHz for transmission of nodal stations.

This authorization terms were issued by the remaining terms established in terms of item 1.9 of public notice no. 002/2007/SPV-Anatel, of October 23, 2007, for consideration, related to authorization for provision of SMP, amendment no. 1 to the authorization term no. 078/2012/PVCP/SPV-Anatel, of August 14, 2013, published in the DOU of August 16, 2013. The authorization matures on April 29, 2023, which could be extended a single time for fifteen years since in compliance with the maintenance of the requirements provided in said terms.

The total amount paid by the Company for the Authorization Terms was R\$451,121 recorded as licenses in intangible assets, amortized by the licenses' remaining term.

The Company operates SMP services, in accordance with the authorizations it has been given, as follows:

Telefônica Brasil S. A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

(In thousands of reais, unless otherwise stated)

<u>Operation area</u>	<u>License Expiration</u>							
	450 MHz	700 MHz	800 MHz	900 MHz	1800 MHz	1900 MHz	2100 MHz	2,5 GHz
<u>Region 1</u>								
Rio de Janeiro		Blocks 6 and 7 - Dec/29	Bandwidth A - Nov/20 (1)	Extension 1 - Apr/23	Extension 9 and 10 - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Espírito Santo		Blocks 6 and 7 - Dec/29	Bandwidth A - Nov/23 (1)	Extension 1 - Apr/23	Extension 9 and 10 - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Amazonas, Roraima, Amapá, Pará and Maranhão		Blocks 6 and 7 - Dec/29	Bandwidth B - Nov/28 (1)	Extension 2 - Apr/23	Extension 7, 9 and 10 - Apr/23		Bandwidth J - Apr/23	Bandwidth X - Oct/27
Minas Gerais (except Triângulo Mineiro)	Oct/27	Blocks 6 and 7 - Dec/29	Bandwidth B - Apr/23 (1)	Extension 2 - Apr/23	Extension 11 to 14 - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Minas Gerais (Triângulo Mineiro)	Oct/27	Blocks 6 and 7 - Dec/29		Bandwidth E - Apr/20 (10)	Bandwidth E - Apr/20 (10)	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23 (9)	Bandwidth X - Oct/27
Bahia		Blocks 6 and 7 - Dec/29						

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		Blocks 6 and 7 - Dec/29	Bandwidth A - Jun/23 (1)	Extension 1 - Apr/23	Extension 9 and 10 - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Sergipe	Oct/27	Blocks 6 and 7 - Dec/29	Bandwidth A - Dec/23 (1)	Extension 1 - Apr/23	Extension 9 and 10 - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte	Oct/27	Blocks 6 and 7 - Dec/29	-	-	Bandwidth E - Apr/23 Extension 9 and 10 - Apr/23	Bandwidth L - Dez/22	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Region 2								
Paraná (except Sector 20) and Santa Catarina	-	Blocks 6 and 7 - Dec/29	Bandwidth B - Apr/28 (1)	Extension 1 - Apr/23	Bandwidth M - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Paraná Sector 20 (5)	-	Blocks 6 and 7 - Dec/29	Bandwidth B - Apr/28 (1)	-	Bandwidth M - Apr/23 Extension 10 - Apr/23	-	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Rio Grande do Sul (except setor 30)	-	Blocks 6 and 7 - Dec/29	Bandwidth A - Dez/22 (1)	Extension 1 - Apr/23	Bandwidth M - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Rio Grande do Sul - Sector 30 (11)	-	Blocks 6 and 7 - Dec/29	-	-	Bandwidth D and M - Apr/23	Bandwidth L - Dez/22 (2)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Federal District	-	Blocks 6 and 7 - Dec/29	Bandwidth A - Jul/21 (1)	Extension 1 - Apr/23	Bandwidth M - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Goiás and Tocantins	-	Blocks 6 and 7 - Dec/29	Bandwidth A - Oct/23 (1)	Extension 1 - Apr/23	Bandwidth M - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Goiás (sector 25) (7)	-	Blocks 6 and 7 - Dec/29	-	-	Bandwidth M - Apr/23 Extension 7 to 10 - Apr/23	Bandwidth L - 07/12/22 (2)	Bandwidth J - Apr/23	Bandwidth X - Oct/27

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Mato Grosso	-	Blocks 6 and 7 - Dec/29	Bandwidth A - Mar/24 (1)	Extension 1 - Apr/23	Bandwidth M - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Mato Grosso do Sul (except for sector 22)	-	Blocks 6 and 7 - Dec/29	Bandwidth A - Set/24 (1)	Extension 1 - Apr/23	Bandwidth M - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Mato Grosso do Sul (6)	-	Blocks 6 and 7 - Dec/29	-	-	Bandwidth M - Apr/23 Extension 7, 9 and 10 - Apr/23	Bandwidth L - 07/12/22 (2)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Rondônia	-	Blocks 6 and 7 - Dec/29	Bandwidth A - Jul/24 (1)	Extension 1 - Apr/23	Bandwidth M - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
Acre	-	Blocks 6 and 7 - Dec/29	Bandwidth A - Jul/24 (1)	Extension 1 - Apr/23	Bandwidth M - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27

Region 3

São Paulo	Oct/27	Blocks 6 and 7 - Dec/29	Bandwidth A - Aug/23 (1)	-	Extension 9 and 10 - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23 (9)	Bandwidth X - Oct/27
São Paulo (Ribeirão Preto, Guatapar and Bonfim Paulista)	Oct/27	Blocks 6 and 7 - Dec/29	Bandwidth A - Jan/24 (1)	-	Extension 9 and 10 - Apr/23	Bandwidth L - Apr/23 (3)	Bandwidth J - Apr/23	Bandwidth X - Oct/27
So Paulo (Franca and region)	Oct/27	Blocks 6 and 7 - Dec/29	Bandwidth A - Aug/23 (1)	-	Extension 9 and 10 - Apr/23	Bandwidth L - Apr/23	Bandwidth J - Apr/23	Bandwidth X - Oct/27
So Paulo (sector 33) (8)	-	Blocks 6 and 7 - Dec/29	-	-	Extension 9 and 10 - Apr/23	Bandwidth L - Dez/22 (2)	Bandwidth J - Apr/23	Bandwidth X - Oct/27

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- (1) All authorization terms of bands A and B were already renewed for 15 years. Therefore, another renewal is not possible (completing 30 years of authorization).
- (2) The authorization terms of L band, which were related to bands A or B, were renewed for the same period.
- (3) L bands, which were realigned to J band, have the same renewal date of the latter (calculation of the realigned price observed this matter).
- (4) In São Paulo, only in cities with CN from 13 to 19, the Company has the 450MHz license, maturing on October 18, 2027.
- (5) Paraná – Sector 20 of PGO – cities of Londrina and Tamarana.
- (6) Mato Grosso do Sul – Sector 22 of PGO – city of Paranaíba.
- (7) Goiás – Sector 25 of PGO – cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão.
- (8) São Paulo - sector 33 of PGO - cities of Altinópolis, Aramina, Batatais, Brodosqui, Buritizal, Cajuru, Cássia dos Coqueiros, Colômbia, Franca, Guaíra, Guará, Ipuã, Ituverava, Jardinópolis, Miguelópolis, Morro Agudo, Nuporanga, Orlândia, Ribeirão Corrente, Sales de Oliveira, Santa Cruz da Esperança, Santo Antônio da Alegria and São Joaquim da Barra.
- (9) Excerpt from TA No. 42/2008 (MG) and TA No. 21/2008 (SP), published in the Federal Official Gazette (DOU) of April 29, 2008 and also of April 30, 2008. Although ANATEL adopts April 30, 2008 for control purposes, the Company conservatively adopts April 29, 2008.
- (10) Next Terms to be renewed - Band E (MG - Sector 3 - CTBC).
- (11) Rio Grande do Sul – sector 30 – cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu

c) Corporate restructuring

In order to streamline the Company's organizational structure, to rationalize the services provided and to concentrate service provision in only two operating entities, namely the Company and its wholly-owned

subsidiary Telefônica Data S.A. (TData or Subsidiary), the Company carried out a corporate restructuring approved by ANATEL, under the terms of Act No. 3043 of May 27, 2013, as published in the Federal Official Gazette (DOU) of May 29, 2013, subject to the conditions thereunder.

The Board of Directors' meeting held on June 11, 2013 approved the terms and conditions of the corporate restructuring process involving the Company's wholly-owned subsidiaries and subsidiaries.

Company Annual General Meeting held on July 1, 2013 approved the aforementioned corporate restructuring, which included spin-offs and mergers of subsidiaries and of companies directly or indirectly controlled by the Company, so that the economic activities other than telecommunications services, including the provision of Value Added Services as defined in article 61 of the General Telecommunications Law (LGT) (with such activities being jointly and generally referred to as SVAs), provided by the various wholly-owned subsidiaries/subsidiaries were concentrated in TData and the telecommunication services were consolidated by the Company.

All of the spin-offs or split-ups, as the case may be, and the merger of the net assets of the companies involved in the restructuring process took place on the same date and had the same reporting date (April 30, 2013), as follows:

- Net asset spun off of TData from partial spin-off corresponding to activities related to provision of SCM, represented by R\$34,724, was merged into the Company.
- Net assets spun off of Vivo S.A. (Vivo), from its total spin-off, corresponding to exploitation of the SMP, SCM and STFC for local, long distance - national and international - in regions I and II of PGO, represented by R\$10,228,352, were merged into the Company, and the net assets spun off from SVAs and other services not considered of telecommunications, represented by R\$680, was merged into TData, and Vivo extinct;
- Net assets spun off of ATelecom S.A. ("ATelecom") from its full spin-off, corresponding to activities related to provision of SEAC (through DTH technology) and SCM, represented by R\$348,624, was merged into the Company and the net assets spun off of SVAs and other services not considered to be related to telecommunications, represented by R\$287,960 was merged into TData, and ATelecom is extinct;

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- Net assets spun off of Telefônica Sistema de Televisão S.A. (TST) represented by R\$226,106 which before being merged into the Company focused its activities related to provision of SEAC and SCM, due to merger of Lemontree Participações S.A. (“Lemontree”), GTR-T Participações e Empreendimentos S.A. (“GTR-T”), Ajato Telecomunicações Ltda, Comercial Cabo TV São Paulo S.A. (“CaTV”) and TVA Sul Paraná S.A. (“Sul Paraná”), which are all extinct.

The merger of companies and net assets previously described did not result in any capital increase or issue of new Company shares; accordingly, the corporate restructuring did not result in any changes in ownership interest currently held by Company shareholders.

There is no question of replacing shares of non-controlling shareholders of the spun-off companies with shares of the merging company, since the Company was, upon the merger of net assets and/or companies, as the case may be, the sole shareholder of the companies spun off/ merged. Accordingly, an equity valuation report at market price was not prepared for calculating the non-controlling share replacement ratio as defined in article 264 of Law No. 6404/76, and article 2, paragraph 1, item VI of CVM Rule No. 319/99, based on recent understandings expressed by the Brazilian Securities and Exchange Commission (CVM) regarding consultations in connection with past restructuring processes and based on CVM Rule No. 559 of November 18, 2008.

The merger of the companies and portions spun off described above were made without interruption of continuity in relation to operations and telecommunication services provided to their customers, being that these services are fully succeeded by the Company.

The restructuring above was considered a reorganization of entities under common control without any change in net equity of the Company once all involved entities were, immediately after the restructuring, 100% controlled by the Company. Consequently, the restructuring was recorded according to the amount of the ledger of the involved entities. However, as a result of the restructuring, the Company recognized the tax benefit and corresponding deferred asset tax of R\$319,996 referring to tax credits of certain companies whose realization was uncertain before restructuring.

d) Proposed Acquisition of GVT Participações S.A.

On September 18, 2014, the Company released a material fact as provided for by CVM Rule No. 358/02, disclosing that, on said date, the Company (Buyer) and Vivendi S.A. (Vivendi) and its subsidiaries (Sellers), entered into a Purchase and Sale Agreement and Other Covenants (Agreement) in which all shares issued by GVT Participações S.A. (GVTPar), controller of Global Village Telecom S.A. (provided that GVTPar

together with GVT Operadora are hereinafter referred to as GVT), shall be acquired by the Company. The execution of the Agreement and other documentation related thereto were duly approved by the Company's Board of Directors in a meeting held on the aforementioned date.

Payment for acquisition of GVT shares shall be made by the Company and Sellers as follows:

- €4,663,000,000.00 payable in cash after contractual adjustments at execution date.

The Company may finance the payment of this installment with capital increase through public offering, whose terms and conditions shall be timely determined by the Board of Directors under the terms of the Company's bylaws.

- A portion of shares issued by the Company, equivalent to 12% of the Company's common shares and 12% of preferred shares after merger of GVTPar shares.

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Payment of this installment shall be made through merger of shares issued by GVTPar by the Company, with the corresponding delivery of common and preferred shares issued by the Company to GVTPar shareholders in place of the merged GVTPar's shares, observing the number of shares referring to the portion to be granted to Sellers as negotiated between the parties and determined in the Agreement, provided that Management shall manage and disclose other terms and conditions of this merger of shares on a timely fashion, after approval of this transaction by ANATEL and CADE.

Vivendi accepted the public offer made by Telefônica S.A. for acquisition of interest in Telecom Itália S.p.A., specifically the acquisition of 1,110 billion common shares of Telecom Itália S.p.A., which currently represents an 8.3% interest in the voting capital of Telecom Itália S.p.A. (equivalent to 5.7% of its capital), in exchange of 4.5% of the Company's capital which Vivendi shall receive due to the combination of the Company and GVT and that represent all common shares and a portion of the preferred shares (representing 0.7% of preferred shares).

Considering that the acquisition of GVT shares by the Company represents significant investment under the terms of Article No. 256 of Law No. 6404/76, this shall be submitted to the Company's shareholders and a Special General Meeting shall be held for this purpose as provided for by applicable law.

Determinations referring to transaction described above shall grant the dissident Company's shareholders the right of recess. Accordingly, dissident shareholders holding Company common and/or preferred shares shall have withdrawal right upon receipt of the respective amount of net earnings per share. The amount per share to be paid upon exercise of the recess right shall be disclosed when the date of the Special Meeting for discussion of issues related to this transaction is determined.

The implementation of this transaction is subject to obtainment of the applicable corporate and regulatory authorizations, including CADE and ANATEL, in addition to other conditions among those usually applicable to this kind of operation.

The Board of Directors' meeting of ANATEL, held on December 22, 2014, previously approved acquisition of full control of GVT by the Company under some conditions, as follows: (i) provision of all certificates of

good standing required by ANATEL; (ii) elimination of STFC overlapping licenses existing between the Company and GVT; (iii) assumption by the Company of obligations to maintain geographic coverage to provide services to users (agreements, plans and services); and (iv) provision of the coverage expansion plan. Further details are contained in the DOU of December 26, 2014. (Docket No. 430/2014-CD, as of December 24, 2014).

The same meeting resolved that the subsequent transfer of shares of Telecom Itália S.p.A. and the Company will be subject to a new approval request to be analyzed by ANATEL. At December 30, 2014, the Company requested from ANATEL approval of the transfer of shares of Telecom Itália S.p.A. and the Company.

e) Agreement between Telefónica S.A. and Telecom Italia, S.p.A.

TELCO S.p.A. has a 22.4% interest with voting rights in Telecom Italia, S.p.A., and is the largest shareholder of this company.

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Telefónica S.A holds indirect control in Telefônica Brasil S.A., and Telecom Italia holds an indirect interest in TIM S.A. (TIM), a Brazilian telecommunications company. Neither Telefónica S.A., nor Telefônica Brasil or any other affiliate of Telefónica S.A. interfere in, are involved with or have decision-making powers over TIM operations in Brazil, also being lawfully and contractually forbidden to exercise any type of political power derived from indirect interest held as concerns operations in Brazil, directly related to TIM operations. TIM (Brazil) and Telefônica Brasil compete in all markets in which they operate in Brazil under permanent competitive stress and, in this context, as well as in relation to the other economic players in the telecommunications industry, maintain usual and customary contractual relations with one another (many of which are regulated and inspected by ANATEL) and/or which, as applicable, are informed to ANATEL and Brazil's Administrative Council for Economic Defense (CADE), concerning the commitments assumed before these agencies so as to ensure total independence of their operations.

On September 24, 2013, Telefónica S.A., entered into an agreement with the other shareholders of the Italian company TELCO S.p.A. whereby Telefónica S.A. subscribed and paid up capital in TELCO, S.p.A. through a contribution of 324 million euros, receiving shares without voting rights of TELCO, S.p.A as consideration. As a result of this capital increase, the share capital of Telefónica S.A. voting in TELCO, S.p.A. remaining unchanged, although their economic participation rose to 66%. Thus, the governance of TELCO S.p.A., as well as the obligations of Telefónica S.A. to abstain from participating in or influencing the decisions that impact the industries where they both operate, remained unchanged.

In the same document, Italian shareholders of TELCO S.p.A. granted Telefónica S.A. an option to purchase all of their shares in TELCO S.p.A. Exercising this call option was subject to obtaining the required previous approvals from antitrust authorities and telecommunications regulatory agencies as applicable (including Brazil and Argentina), beginning eligible after January 1, 2014, whenever the Shareholders' Agreement remains in full force and effect, except (i) between June 1 and June 30, 2014 and between January 15 and February 15, 2015; and (ii) during certain periods in case the Italian shareholders of TELCO, S.p.A. request the entity's spin-off.

On December 4, 2013, the CADE announced the following decisions:

- 1) Approve, subject to the limitations described below, the acquisition, by Telefónica S.A., of the total interest held by Portugal Telecom, SGPS SA e PT Móveis – Serviços de Telecomunicações, SGPS, SA (PT)

in Brasilcel NV, which controlled Brazilian mobile telecommunications operator Vivo Participações S.A. (Vivo Part.), merged into Telefônica Brasil S.A.

The transaction has been approved by ANATEL and its completion (requiring no prior approval from CADE at the time) took place immediately after approval from ANATEL, on September 27, 2010.

The limitations imposed by CADE on its decision are as follow:

- a) A new shareholder share control over extinct Vivo Part. with Telefónica S.A., adopting the same conditions applied to PT when it held an interest in Brasilcel NV.; or
- b) Telefónica S.A. shall cease to have, either directly or indirectly, an equity interest in TIM Participações S.A.

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2) Impose a R\$15 million fine on Telefônica S.A. for violating the will and purpose of the agreement executed by and between Telefônica S.A. and CADE, as a requirement to approve the initial purchase transaction of Telecom Italia in 2007, due to the subscription and payment, by Telefônica S.A., of TELCO S.p.A. nonvoting shares in the context of its recent capital increase. This decision also requires Telefônica S.A. to dispose of its nonvoting shares held in TELCO S.p.A.

The deadline for compliance with the conditions and obligations imposed by CADE in both decisions were classified as confidential by CADE.

At December 13, 2013, Telefônica S.A. published a material news release regarding the decisions made by CADE in the meeting held on December 4, 2013, stating that it considered the measures imposed by that agency to be unreasonable, and began legal proceedings in July 2014.

In this context, and in order to strengthen its firm commitment to the obligations previously assumed by Telefônica S.A. to keep away from Telecom Italia's business in Brazil, Telefônica S.A. pointed out, in a material news release that Mr. César Alierta Izuel and Mr. Julio Linares López had decided to resign with immediate effect, from the position of Directors at Telecom Itália S.p.A. ..Additionally, Mr. Julio Linares López decided to resign, with immediate effect, from his position on the list presented by TELCO S.p.A. for a potential re-election to the Board of Directors of Telecom Itália, S.p.A.

Likewise, Telefônica S.A., notwithstanding the rights defined in the Shareholders' Agreement of TELCO S.p.A, stated in a material news release it decided not to exercise, for now, its right to appoint or suggest two Directors at Telecom Itália, S.p.A.

On June 16, 2014, the Italian shareholders of TELCO, S.p.A. decided to exercise their rights to request spin-off ensured by the Shareholders' Agreement of company. The implementation of this spin-off was approved at the Annual General Meeting of TELCO, S.p.A. held on July 9, 2014, and is subject to the previous authorization by competent authorities, including CADE and ANATEL in Brazil. Whenever authorized, the spin-off will be implemented through the transfer of all current interest held by TELCO, S.p.A. in the capital of Telecom Itália, S.p.A., for four (4) new companies, which are wholly owned by one of

the current shareholders of TELCO, S.p.A., and which were designed to hold interest in the capital of Telecom Itália, S.p.A., proportionally to the current economic interest of their respective future controlling shareholder in the capital of TELCO, S.p.A.

Regulatory approvals in Brazil referring to spin-off of TELCO, S.p.A., as referred to above, were required to the competent bodies and are expecting for the first quarter of 2015. The spin-off will result in Telefónica S.A. holding, by means of a special purpose entity, 14.77% of the voting shares of Telecom Itália, S.p.A., of which 8.3% of the shares shall be exchanged with Vivendi as mentioned above, and 6.47% of the shares, pegged to debentures issued by Telefónica S.A. in July 2014, convertible at maturity date into shares of Telecom Itália, S.p.A., provided the demerger of TELCO has occurred.

The Board of Directors' meeting of ANATEL, held on December 22, 2014, previously approved split-off of TELCO, S.p.A., suspending all political rights of Telefónica S.A. in Telecom Itália, S.p.A. and its subsidiaries that may consist of control, under the terms of the Regulation for Analysis of Control and Transfer of Control of Telecommunications Companies.

Suspension thereof shall be included in the Articles of Incorporation of Telecom Itália, S.p.A. or its successor and shall prevail while Telefónica S.A. is a shareholder of Telecom Itália, S.p.A., regardless of the number of shares, or until control no longer exists. Further details are contained in the DOU of December 26, 2014. (Docket No. 429/2014-CD as of December 24, 2014).

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NOTES TO FINANCIAL STATEMENTS

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2) BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1) Statement of compliance

The individual financial statements (Company) were prepared and are presented in accordance with the accounting practices adopted in Brazil, which comprise CVM standards and CPC pronouncements, in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The consolidated financial statements (Consolidated) were prepared and are presented in accordance with the IFRS, issued by IASB, which are not different from the accounting standards adopted in Brazil, comprising CVM and CPC standards.

At the meeting held on February 12, 2015, the Executive Board authorized the issue of these financial statements, which was ratified by the Board of Directors at a meeting held on February 24, 2015.

2.2) Basis of preparation and presentation

The Company's financial statements for the years ended December 31, 2014 and 2013 are presented in thousands of reais (unless otherwise stated) and were prepared under a going concern assumption.

The financial statements were prepared on a historical cost basis (except where different criteria are required) and adjusted to reflect the valuation of assets and liabilities measured at fair value or considering the mark-to-market valuation when these items are classified as available for sale.

These financial statements were prepared under various measurement bases used in accounting estimates. The accounting estimates involved in the preparation of these financial statements were based on objective and subjective factors, considering management's judgment for determining the adequate amounts to be recorded in the financial statements. Significant items subject to these estimates and assumptions include selection of useful lives and recoverability of property, plant and equipment in operations, fair value measurement of financial assets, credit risk analysis in determining estimated impairment losses of trade accounts receivable, as well as analysis of other risks for determination of other provisions, including for contingencies.

The settlement of transactions involving these estimates may result in amounts different from those recorded in the financial statements due to uncertainties inherent in the estimate process. The Company reviews its estimates at least once a year.

Due to the net assets received in the corporate restructuring process described in Note 1c), the individual financial statements (Company) as of December 31, 2014 are not comparable with those as of December 31, 2013.

Some headings in the Income Statement were reclassified to allow comparability between the figures as of December 31, 2014 and 2013.

The Company declares that the consolidated financial statements are in compliance with IFRS issued by IASB and also in accordance with the pronouncements, interpretations and guidelines issued by CPC in force as of December 31, 2014, which include the new pronouncements, interpretations and amendments, of the following standards, amendments and interpretations published by IASB and IFRS Interpretations Committee (IFRIC) which became effective in 2014:

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- *IFRS 2 Share Based Payments*: These amendments changed the settings relating to the purchase conditions and its implementation is effective beginning on or after July 1, 2014. The Company does not believe that these amendments may significantly impact its financial position.
- *IFRS 3 Business Combination*: The amendments changed the accounting for contingent consideration in a business combination. Contingent consideration on acquisition of a business that is not classified as equity is subsequently measured at fair value through profit or loss, whether or not included in the scope of *IFRS 9 Financial Instruments*. These changes are effective for new business combinations after July 1, 2014. There was no business combinations in 2014, in the meantime, the Company consider the application of these changes to any business combinations that occur beginning on or after July 1st, 2014.
- *IFRS 8 Operating Segments*: These amendments are related to the aggregation of operating segments, which can be combined / aggregated whether they are in accordance with the criteria of the rule, in other words, if the segments have similar economic characteristics and are similar in other qualitative aspects. If they are combined, the entity shall disclose the economic characteristics used to assess whether the segments are similar. These amendments became effective as from July 1, 2014. Considering the fact that the Company and its subsidiary operate in a sole operating segment, this standard does not significantly impact the Company's financial position.
- *IFRS 13 Fair Value Measurement*: This amendment is related to the application of the exception to financial assets portfolio, financial liabilities and other contracts. The amendment is prospective as from July 1, 2014. The application of this standard does not entail significant impacts on the Company's financial position.
- *IFRIC 21 Levies*: This amendment became effective for annual periods beginning on or after January 1, 2014 and provides guidance on when to recognize a liability for a tax or levy when the obligating event occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached. The application of this amendment does not entail significant impacts on the Company's financial position.

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: The amendments to IAS 16.35 (a) and IAS 38.80 (a) clarifies that a revaluation can be made as follows: i) adjust the recorded gross amount of asset to market value or, ii) determine the market value and proportionally adjust the recorded gross amount so that the resulting recorded amount is equal to the market value. IASB also clarifies that the accumulated depreciation/amortization is the difference between the recorded gross amount and the asset's book value (i.e., the recorded gross amount – accumulated depreciation/amortization = book value). The amendment to IAS 16.35 (b) and IAS 38.80 (b) clarifies that the accumulated depreciation/amortization is eliminated so that the recorded gross amount and the book value is equal to the market value. Amendments become effective as from July 1, 2014 on a retrospective basis. Considering that the revaluation of fixed or intangible assets is not allowed in Brazil, the application of the amendments to this standard do not have any significant impact on the Company's financial position.

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- IAS 19 - Defined Benefit Plans: Employee Contributions (Amendments to IAS 19): These amendments mandate that an entity has to consider contributions from employees (or third parties) when accounting for defined benefit plans. Contributions that are linked to service must be attributed to periods of service as a reduction of service cost. If the amount of the contributions is independent of the number of years of service, contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered. These amendments became effective for annual periods beginning on or after July 1, 2014 retrospectively and do not significantly impact Company's financial position.
- IAS 24 Related Party Disclosures: The amendment to this standard clarifies that a management entity of other entity that provides key personnel for provision of management services is a subject related to related party disclosures. Additionally, an entity that used a management entity shall disclose the expenses incurred with management services. Amendments become effective as from July 1, 2014 on a retrospective basis. The application of these amendments does not entail significant impacts on the Company's financial position.
- IAS 32 Offsetting Financial Assets and Financial Liabilities: This amendment became effective for annual periods beginning on or after January 1, 2014 and clarifies the meaning of "currently has a legally enforceable right to set off the recognized amounts" and the criteria that would qualify for settlement the settlement mechanisms of clearing house systems that are not simultaneous. The application of this amendment does not entail significant impacts on the Company's financial position.
- IAS 36 Impairment of Assets: This amendment became effective for annual periods beginning on or after January 1, 2014 and eliminates unintended consequences of IFRS 13 Fair Value Measurement on disclosures required by IAS 36. In addition, these amendments require the disclosure of recoverable amounts of assets or Cash Generating Units (CGU) for which a provision for impairment has been recognized over the period. The application of this amendment does not impact the Company's disclosures.
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting: This amendment became effective for annual periods beginning on or after January 1, 2014 and introduces a relief regarding discontinuance of hedge accounting where a derivative, which is designated as hedging instrument, is novated if specific conditions are met. The application of this amendment does not entail significant impacts on the Company's financial position.

- IAS 40 Investments Property: Amendment to this standards clarifies the relationship between IFRS 3 and IAS 40 for classification of property as investment property or property occupied by owner. The description of ancillary services determined in IAS 40, which provides a difference between investment property and owner of occupied property (IFRS 3) is used to determine whether the operation refers to the purchase of an asset or a business combination. This amendment entered in force as from July 1, 2014 on a prospective basis. The application of these amendments does not entail significant impacts on the Company's financial position.

On the preparation date of these financial statements, the following IFRS amendments had been published; however, their application was not compulsory:

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- *IFRS 9 Financial Instruments*: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company and subsidiary's financial assets, but no impact on the classification and measurement of the financial liabilities. The Company has not quantified the effects on the consolidated financial statements.
- *IFRS 15 Revenue from Contracts with Customers*: IASB issued IFRS 15 *Revenue from Contracts with Customers*, which requires that an entity should recognize the amount of income, reflecting the amount expected to be received in exchange of the control of these goods or services. When adopted, this standard shall replace most part of the detailed guidance on income recognition currently existing (standards IAS 11, IAS 18, IFRIC 13, IFRIC 15 and IFRIC 18). This standard is applicable as from years starting on January 1, 2017, and can be adopted on a retrospective basis or by using a cumulative effect approach. The Company is evaluating the impacts on its financial statements and disclosures and have neither defined the transition method nor determined the potential impacts on its financial reports.
- *IAS 27 - Equity Method in Separate Financial Statements (Amendments to IAS 27)*: When IAS 27 and IAS 28 were revised in 2003, the IASB removed the option to use the equity method of accounting in measuring investments in subsidiaries, joint ventures and associates in the separate financial statements of the investor. In some jurisdictions, corporate law does also require the use of the equity method in separate financial statements to measure investments in subsidiaries, joint ventures and associates. Accordingly, in jurisdictions that apply IFRSs and have the equity method requirement, two sets of financial statements need currently be prepared to meet the requirements of both IAS 27 and local laws. The amendments reinstate the equity method as an accounting option. They also allow an entity to account for these investments at cost, in accordance with IFRS 9 (or IAS 39) or using the equity method. The accounting option must be applied by category of investments. This standard is applicable for annual periods beginning on or after January 1, 2016 retrospectively.

The Company does not early adopt any pronouncement, interpretation or amendment which has been issued but whose application is not mandatory.

2.3) Basis for consolidation and main variations in consolidation

Following we described certain information on invested companies at December 31, 2014 and 2013.

Telefônica Data S.A. (TData): Wholly-owned subsidiary of the Company headquartered in Brazil whose objective is providing and exploiting value added services; corporate solutions integrated to telecommunication and related activities; management of services rendering, technical support and maintenance of equipment and telecommunication networks, advisory on telecommunication solutions and related to preparation, implementation and installation of projects related to telecommunication; commercialization and lease of equipment, products and telecommunication services, among others.

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Aliança Atlântica Holding B.V. (“Aliança”): Jointly-controlled company, with a 50% interest held by the Company, headquartered in Amsterdam, Netherlands, with cash flows from sale of shares to Portugal Telecom in June 2010.

Companhia AIX de Participações (“AIX”) Jointly-controlled company, with 50% interest held by the Company, with head office in Brazil, whose objective is participating in Refibra Consortium, as well as performing activities related to the direct and indirect operation of activities related to the construction, completion and operation of underground networks or optical fiber ducts.

Companhia ACT de Participações (“ACT”) Jointly-controlled company, with 50% interest held by the Company, this entity is engaged in holding interest in Refibra Consortium, and in performing activities related to the rendering of technical support services for the preparation of projects and completion of networks, by means of studies required to make them economically feasible, and monitor the progress of Consortium-related activities.

Upon consolidation, all asset and liability balances, revenues and expenses arising from transactions and interest held in equity between the Company and its Subsidiary were eliminated.

3) SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

a) Cash and cash equivalents

These are maintained in order to meet short-term cash commitments and not for investment or other purposes. The Company considers cash equivalents a short-term investment readily convertible into a known cash amount and subject to insignificant risk of change in value. Short-term investments are qualified as cash-equivalent when redeemable within 90 days of purchase (Note 4).

b) Trade accounts receivable, net

These are evaluated by the value of the services provided in accordance with the contracted conditions, net of estimated impairment losses. This includes the services provided to customers, which were still not billed until balance sheet, as well as other trade accounts receivable related to the sale of cellphones, SIM cards and other accessories. The estimated impairment losses are set up at sufficient amounts to cover any losses and considers mainly the expected default (Note 5).

c) Inventories

These are evaluated and presented at the average acquisition cost or by the net realizable value, whichever is lower. These include cellphones, SIM cards, prepaid cards, accessories, consumption materials and maintenance. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale (Note 6).

Estimated impairment losses are set up for materials and devices considered obsolete or whose amounts are superior to those usually commercialized by the Company within a reasonable period of time.

d) Prepaid expenses

These are stated at amounts effectively disbursed referred to services contracted by not incurred yet. Prepaid expenses are allocated to P&L to the extent that related services are rendered and economic benefits obtained (Note 9).

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e) Investments

The Company's investments in investees (subsidiaries or jointly-controlled entities) are accounted for using the equity method in the individual financial statements. In consolidated financial statements, investments in subsidiaries are fully eliminated and investments in joint ventures are measured using the equity method and not eliminated.

Based on the equity pickup method, investments are recorded in balance sheets at cost plus changes after the acquisition of the equity interest.

The income statement reflects the portion of P&L from operations in investees.

When changes are directly recognized in the investees' equity, the Company will recognize its portion in variations occurred, as well as record these variations in the statements of changes in equity and in the statements of comprehensive income, where applicable.

The financial statements of investees are prepared for the same reporting period of the Company. Whenever necessary, adjustments are made for the accounting practices to comply with those adopted by the Company.

After the equity method is applied, the Company determines whether there is need to recognize additional impairment of its investment in investees. At each closing date, the Company determines whether there is objective evidence of impairment of investment in the affiliate. If so, the Company calculates the recoverable amount as the difference between the recoverable value of the investees and their book value, and recognized the amount in P&L.

When there is loss of significant influence over the investees, the Company evaluates and recognizes the investment, at this moment, at fair value. Any difference between the investees' book value by the time it loses significant influence and the aggregate of the fair value of the remaining investment and proceed from sale is recognized in P&L.

Upon consolidation, all asset and liability balances, revenues and expenses arising from transactions and interest held in equity between the Company were eliminated, in accordance with the Company's interest therein.

Foreign exchange variations in Aliança's equity (jointly-controlled entity) are recognized in the Company's equity in other comprehensive income ("Difference of conversion of investments abroad", Note 22f).

f) Fixed assets, net

Fixed assets are stated at acquisition and/or construction cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the borrowing costs for long-term construction projects if the recognition criteria are met, and is stated net of ICMS (State VAT) credits, which were recorded as recoverable taxes.

Asset costs are capitalized until the asset becomes operational. Costs incurred after the asset becomes operational and that do not improve the functionality or extend the useful life of the asset are immediately expensed, under the accrual method of accounting. When significant parts of fixed assets are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful life and depreciation. Likewise, expenses that represent asset improvement (expanded installed capacity or useful life) are capitalized. All other repair and maintenance costs are recognized in the income statement as incurred.

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The present value of the expected cost for the decommissioning of towers and equipment on leased property is capitalized in the cost of the respective asset matched with the provision for dismantling obligations (Note 19) and depreciated over the useful life of the related assets, which do not exceed the lease term.

Depreciation is calculated by the straight-line method over the useful lives of assets, at rates that take into account the estimated useful lives of assets based on technical analyses. The assets' residual values, useful lives and methods of depreciation are reviewed on a yearly basis, adjusted prospectively, if appropriate. The useful lives are detailed in note 12.

Property, plant and equipment items are written off when sold or when no future economic benefit is expected from their use, sale or insurance claim. Any gains or losses arising from write-off of assets (measured as the difference between the net disposal proceeds and the net book value of the asset) are recognized in the statement of operations in the year when the asset written off.

Following is a brief description of the main fixed asset items, note 12:

- Commutation equipment: This includes commutation centers and control, gateway, HLR, platforms and other commutation equipment.
- Equipment and transmission media: These include base radio station, microcells, minicells, repeaters, antennas, radios, access networks, concentrators, cables, TV equipment and other equipment and transmission means.
- Terminal/modem equipment: Includes cellphones and modems (rent and free lease), private commutation centers, public telephones and other terminal equipment.

- Infrastructure: This includes buildings, elevators, central air conditioning equipment, towers, posts, containers, energy equipment, land piping, support and protectors, leasehold improvements, etc.
- Other fixed asset items: These include vehicles, repair and construction tools and instruments, telesupervision equipment, IT equipment, testing and measurement equipment, fixtures and other goods for general use.

g) Intangible assets, net

Intangible assets acquired separately are measured at cost upon their initial recognition. Cost of intangible assets acquired in a business combination corresponds to fair value at the acquisition date.

After initial recognition, intangible assets are stated at acquisition and/or buildup cost, net of amortization and accumulated provision for impairment, where applicable. Intangible assets generated internally, excluding capitalized development costs, are not capitalized, and the expense is reflected in the income statement for the year in which it incurs.

The useful life of an intangible asset is assessed as finite or indefinite, as follows:

- Intangible assets with a finite useful lives are amortized over their economic useful lives under the straight-line method and are tested for impairment whenever there is any indication of impairment loss. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed on an annual basis.

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Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite life is recognized in the income statement in the cost/expense category consistent with the function of the intangible assets.

- Intangible assets with indefinite useful lives are not amortized, but rather are tested annually for impairment, either individually or at cash-generating-unit level. Indefinite useful life assessment is reviewed annually to determine whether such assessment continues to be justified. Otherwise, changes in useful life – from undefined to defined – are made on a prospective manner. Goodwill generated upon investment acquisition are treated as intangible assets of indefinite useful lives.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the book value of the asset, and recognized in the income statement on disposal.

Following is a brief description of the key intangible asset items with finite useful lives, Note 13:

- Software: This includes licenses of software used for operational, commercial and administrative activities.
- Customer portfolio: This includes intangible assets acquired through business combination, recorded at fair value at acquisition date.
- Trademarks and patents: This includes intangible assets acquired through business combination, recorded at fair value at acquisition date.

- Licenses: This includes concession and authorization licenses, acquired from ANATEL for provision of telecommunication services. These also include licenses from business combinations, recorded at fair value at acquisition date.

h) Leases

Characterization of a contract as lease is based on substantive aspects relating to the use of a specific asset or assets, or the right to use a certain asset, on the date of its execution.

Finance lease agreements: By means of these agreements, the Company obtains substantially all risks and rewards referring to the property of the leased item. These are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Initial direct costs incurred in the transaction are added to the cost, where applicable. Payments of finance lease agreements are allocated to financial charges and reduction of finance lease liabilities, in order to obtain constant interest rate, to the outstanding liability balance. Implicit interest recognized in liabilities is allocated to the income statement over the lease term or using the effective interest rate method.

These are depreciated according to the good's estimated useful lives. However, when there is no reasonable guarantee that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of its estimated useful life or the lease term.

The Company or subsidiary has lease arrangements classified as finance leases both as a lessor and as a lessee.

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- As lessor: lease of IT equipment (Produto Soluções TI) for which the Company recognizes revenue, upon inception, at the present value of lease payments matched with accounts receivable.
- As lessee: transmission equipment and media arising from a joint construction agreement with another telecomm operator, based on an optical network linked to the power transmission line, interconnecting the northern Brazilian cities to the Company's national backbone and lease of towers and rooftops (arising from sale and finance leaseback, for which the net book value of the assets upon disposal remained unchanged, a liability was recognized at the present value of minimum lease payments and deferred income was recorded at the difference between the selling price and the mentioned present value).

The difference between the nominal amount of lease payments and booked accounts receivable/payable is recognized as finance income/expenses using the effective interest rate method over the lease term.

Operational lease: These are lease agreements where lessor holds a significant portion of risks and rewards, whose effects are recognized in P&L for the year over the contractual term.

i) Analysis of the recoverability of non- financial assets

The Company annually reviews the net book value of assets in order to evaluate events or changes in economic, operating or technological circumstances that may indicate impairment losses. When such evidence is found, and net book value exceeds recoverable amount, a provision for impairment is recorded so as to adjust the net book value to the recoverable amount.

The recoverable amount is defined as the higher between the value in use and the net sale value.

Upon estimation of the value in use of an asset or cash-generating unit, estimated future cash flows are discounted at present value using a discount rate based on the capital cost rate (The Capital Asset Pricing Model – CAPM) before taxes, which reflects the weighted average cost of capital and specific risks of the

asset or cash-generating unit (CGU).

Whenever possible, the net sale value is determined based on a firm sale agreement executed on an arm's length basis between knowledgeable and interest parties, adjusted by expenses attributable to the sale of assets or, when there is no firm sale agreement, based on the market price of an active market, or on the latest transaction price involving similar assets.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

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The following assets have specific characteristics for impairment testing:

i.1) Goodwill: Goodwill is tested for impairment annually at the reporting date or before that when circumstances indicate that the carrying value may be impaired.

When the recoverable amount is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

i.2) Intangible assets: Intangible assets with indefinite useful life are tested for impairment annually at the reporting date either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

i.3) Determination of value in use: The key assumptions used to estimate value in use are:

Revenue: Revenue is projected considering the growth in customer base, the evolution of market revenue in view of GDP and the Company's share in this market;

Operating costs and expenses: Variable costs and expenses are projected in accordance with the dynamics of the customers base, and fixed costs are projected in line with the historical performance of the Company, as well as with revenue growth; and

Capital investments: Investments in capital goods are estimated considering the technological infrastructure necessary to enable the provision of services.

The key assumptions are based on the subsidiary's historical performance and reasonable macroeconomic assumptions grounded on financial market projections, documented and approved by the Company's management.

The impairment test of the Company and subsidiary's fixed and intangible assets did not result in recognition of impairment losses for the years ended December 31, 2014 and 2013, since their estimated market value is greater than the net carrying amount as of the estimation date.

j) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition-date fair value, and the value of any non-controlling interests in the acquiree.

For each business combination, the acquirer measures the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred. Costs directly attributable to the acquisition must be recorded as expenses, as incurred.

Upon acquiring a business, the Company assesses financial assets and liabilities assumed so as to classify and allocate them in accordance with contractual terms, economic circumstances and relevant conditions on the acquisition date, including the segregation, by the acquiree, of embedded derivatives existing in host contracts in the acquiree.

In the event of a business combination in stages, fair value on acquisition date of ownership interest previously held in the acquiree's capital is reassessed at fair value on the acquisition date, and any impacts are recognized in the income statement.

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Any contingent portion to be transferred by the acquirer will be recognized at fair value on acquisition date. Any subsequent changes in fair value of contingent consideration classified as an asset or liability are to be recognized in either profit or loss or other comprehensive income. If the contingent portion is classified as equity, it shall not be revalued until finally settled in equity.

Contingent consideration upon acquisition of a business which is not classified as equity is subsequently measured at fair value through profit or loss, either when it falls into the scope of IFRS 9 or when it does not.

Goodwill is initially measured as transferred payment exceeding amount in relation to acquired net assets (identifiable net assets acquired and liabilities assumed). If the consideration is lower than the fair value of the net assets acquired, the difference is directly recognized in P&L.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When goodwill has been allocated to a CGU and part of the operation within that CGU is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed in these circumstance is allocated based on the relative fair values of the disposed operation and the portion of the CGU retained.

k) Financial instruments - initial recognition and subsequent measurement

k.1) Financial assets

Initial recognition and measurement

Upon initial recognition, financial assets are classified as financial assets measured at fair value through profit or loss, loans and receivables, investments held to maturity, financial assets available for sale or derivatives classified as effective hedging instruments, as applicable. The Company determines the classification of its financial assets at initial recognition, as they become part of the instrument's contractual provisions.

All financial assets are initially recognized at fair value, plus, in the case of investment that is not determined at fair value through profit or loss, the transaction cost that are directly attributable to the acquisition of the financial asset.

Sales and purchases of financial assets that involve delivery of assets within a time frame established by regulation or in the marketplace concerned (regular way purchases) are recognized on the transaction date, i.e., the date on which the Company commits itself to purchasing or selling the asset.

The Company's financial assets include cash and cash equivalents, trade accounts receivable, other accounts receivable, loans and other receivables, listed and unlisted financial instruments and derivative financial instruments.

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Subsequent measurement

Subsequent measurement of financial assets depends on their classification, which can be as follows:

Financial assets at fair value through profit or loss: These include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if acquired to be sold within short term. This category includes derivative financial instruments contracted by the Company which do not meet the hedge accounting criteria set out by the corresponding standard. Financial assets at fair value through profit or loss are stated in balance sheets at fair value with their corresponding gains or losses recognized in P&L.

Loans and receivables: these are non-derivative financial assets with fixed or determinable payments, however not traded in an active market. After their initial measurement, they are accounted for at amortized cost calculated under the effective interest rate method, less impairment losses, where applicable. The amortized cost is calculated taking into consideration any discount or “premium” upon acquisition as well as the fees and costs incurred. Amortization of effective interest rate method is included in the financial income line in P&L. Impairment is recognized as financial expense in P&L, where applicable.

Investments held to maturity: Non-derivative financial assets with fixed or determinable payment and fixed maturity date are classified as held to maturity when the Company shows intention and financial capacity to hold them up to maturity. After their initial recognition, investments held to maturity are measured at amortized cost using the effective interest rate method, less impairment losses. The amortized cost is calculated taking into consideration any discount or “premium” upon acquisition as well as the fees and costs incurred. Amortization of effective interest rate is included in the financial income line, in P&L. Impairment losses are recognized as financial expense in P&L. The Company did not record investments held to maturity for the years ended December 31, 2014 and 2013.

Financial assets available for sale: These are non-derivative financial assets not classified as: (i) loans and receivables, (ii) investments held to maturity or (iii) financial assets at fair value through profit or loss. These

financial assets include equity and debt instruments. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After the initial measurement, financial assets available for sale are measured at fair value, and unrealized gains and losses are recognized directly in the reserve for assets available for sale in other comprehensive income until the investment is written off, except for impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets recognized in the income statement.

When the investment is derecognized or when impairment loss is identified, cumulative gains or losses previously recognized in other comprehensive income (loss) shall be recognized in the income statement.

The fair value of financial assets available for sale denominated in foreign currency is measured in the foreign currency and translated at the spot exchange rate at financial statements date. Changes in fair value attributable to translation differences are recognized directly in equity

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Derecognition (write-off):

A financial asset (or, whenever the case, a part of a financial asset, or a part of a group of similar financial assets) is derecognized when:

- The rights to receive the cash flows from the asset expire;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive the cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards related to the asset, the Company continues to recognize a financial asset to the extent of its continuing involvement in the financial asset.

k.2) Impairment of financial assets

The Company assesses at the balance sheet date whether there is any objective evidence of impairment of the financial asset or group of financial assets. A financial asset or a group of financial assets is considered to be impaired only if there is an objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (a "loss event" incurred) and this loss event has effect on estimated future cash flows from financial asset or group of financial assets that can be reasonably estimated.

Evidence of impairment loss may include indication that the borrowing parties are going through significant financial hardship. The probability that they will go bankrupt or other financial reorganization, that there will be default or late payment of interest or principal may be indicated by a measurable drop in the estimated future cash flows, such as changes in maturity or economic conditions related to defaults.

Financial assets at amortized cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company concludes that there is no evidence of impairment losses for a financial asset individually analyzed, whether significant or not, this asset is included in a group of financial assets with similar characteristics of credit risk, and is jointly evaluated for impairment losses. Assets that are individually tested for impairment, and for which impairment loss is or continues to be recognized, are not included in any group of financial assets to be tested for impairment.

When there is clear evidence of impairment, the impairment loss is measured as the difference between the asset book value and the present value of the estimated future cash flows (excluding future credit losses expected but not incurred). The present value of future cash flows is discounted at the original effective interest rate for the financial asset.

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The asset book value is decreased by a provision and the loss amount is recognized in the income statement. Loans, jointly with the corresponding provision, are written off when there is no realistic perspective of its future recovery and all guarantees have been realized or transferred to the Company. If, in a subsequent year, the estimated impairment loss increases or decreases as a consequence of an event occurred after the impairment loss recognition, the previously recognized loss is increased or decreased in order to adjust the provision. In case a written-off amount is recovered in the future, this recovery is recognized in the income statements.

Investments available for sale

The Company assesses at the balance sheet date whether there is objective evidence that an investment is impaired

For investment in securities classified as available for sale, objective evidence include a significant and prolonged loss in fair value of investments, below their book value.

When there is evidence of impairment loss, the accumulated loss, measured by the difference between acquisition cost and the current fair value, less impairment loss are recognized directly in P&L, is reclassified from equity to P&L. Increases in their fair value after impairment are recognized directly in other comprehensive income.

As for debt securities classified as available for sale, impairment loss is determined based on the same criteria used for financial assets at amortized cost. However, the impairment amount recorded is the cumulative loss measured by the difference between amortized cost and the current fair value, less any impairment loss in the investment previously recognized in the income statements.

Interest continues to be computed at the effective interest rate used to discount future cash flows for impairment. Interest income is recorded as financial income. When, in a subsequent year, the fair value of

a debt instrument increases, and this increase can be objectively related to an event occurred after the recognition of the impairment loss in the income statements, the impairment loss is maintained in the income statements.

k.3) Financial liabilities

Initial recognition and measurement

Upon initial recognition, the Company determines the classification of its financial liabilities among the following possibilities: financial liabilities at fair value through profit or loss, loans and financing, trade accounts payable, or derivatives classified as hedge instruments, according to the transaction nature

Financial liabilities are initially recognized at fair value, and in the case of loans and financing, plus directly related transaction charges.

Company's financial liabilities include trade accounts payable and other accounts payable, loans and financing agreements, and derivative financial instruments.

Subsequent measurement

Measurement of financial liabilities depends on their classification, which can be as follows:

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Financial liabilities at fair value through profit or loss: these include financial liabilities determined upon initial recognition at fair value through profit or loss. This category includes derivative financial instruments contracted by the Company which do not meet the hedge accounting criteria set out by the corresponding standard.

The Company did not record any financial liability at fair value through profit or loss upon initial recognition.

Loans and financing: After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized, as well as over the amortization process, by using the effective interest rate method.

Derecognition (write-off)

Financial liabilities are written off when the obligation thereunder is discharged, cancelled or expired.

When an existing financial liability is replaced by another of the same amount with substantially different terms, or the terms of an existing liability are significantly changed, this replacement or change is treated as write-off of the original liability with recognition of a new liability, the difference in the respective carrying amount being recognized in the income statement.

k.4) Financial instruments – net

Financial assets and liabilities are presented net in the balance sheet if, and only if, there is a current enforceable legal right of offsetting the amounts recognized and if there is the intention to offset or realize the asset and settle the liability simultaneously.

k.5) Fair value of financial instruments

The fair value of financial instruments actively traded in organized financial markets is determined based on purchase prices quoted in the market at close of business at balance sheet date, without deduction of transaction costs.

The fair value of financial instruments for which there is no active market is determined by using valuation techniques. These techniques may include the use of recent market transactions (on an arm's length basis); reference to the current fair value of another similar instrument, analysis of discounted cash flows or other valuation models.

l) Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments, such as currency swap and interest rate and non-deliverable forward, to hedge against exchange variation risks.

Derivative financial instruments used in hedge transactions are initially recognized at fair value when the derivative contract is executed, also being subsequently revalued at fair value. Derivatives are presented as financial assets when the instrument's fair value is positive and as financial liabilities when fair value is negative.

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Any gains or losses from changes in fair value of derivatives over the year are directly posted to the income statements, except for the effective cash flow hedge portion, which is recognized directly in equity, under “Other comprehensive income (loss)”, and subsequently recorded in P&L when the hedge item affects the income.

For the purpose of hedge accounting, hedges are classified as: cash flow hedges and fair value hedges.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk.

As for cash flow hedges, the hedge relationship documentation also includes the highly probable forecast nature of the transaction as well as the periods expected to transfer gains or losses arising from hedge instruments from equity to the income statement. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company’s contracts are classified as cash flow hedges when they protect from changes in cash flows that are attributable to a particular risk associated to a recognized liability that may affect the result of operations, and as fair value hedges when they protect from changes in the fair value of an identified part of certain liabilities that are attributable to a particular risk and may affect the result of operations.

Cash flow hedges

Cash flow hedges meeting the recording criteria are accounted for as follows: (i) the portion of gain or loss from the hedge instrument determined as effective hedge shall be recognized directly in equity (in other comprehensive income), and (ii) the ineffective portion of gain or loss from the hedge instrument shall be recognized in the income statement.

When the Company's documented risk management strategy for any given hedge relationship excludes from the hedge effectiveness evaluation any particular component of gain or loss or the corresponding cash flows from the hedge instrument, that gain or loss component is recognized in financial income (expenses).

Amounts recorded in other comprehensive income are immediately transferred to the income statement when the hedged transaction affects P&L, for example, when the hedged financial income or expenses are recognized or when a sale is likely to occur. When a hedged item is the cost of a non-financial asset or liability, amounts recorded in equity are transferred at their initial book value to non-financial assets and liabilities.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge fails to meet the hedge accounting criteria, any cumulative gain or loss previously recognized in other comprehensive income remains separately in equity until the forecast transaction occurs or the firm commitment is fulfilled

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Fair value hedges

Fair value hedges meeting the recording criteria are accounted for as follows: (i) gain or loss from changes in fair value of a hedge instrument shall be recognized in the income statement as finance costs; and (ii) gain or loss from a hedged item attributable to the hedged risk shall adjust the recorded amount of the hedged item to be recognized in the income statement, as finance costs.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying amount is amortized through profit or loss over the remaining term of the hedge using the effective interest method. The effective interest rate amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

Classification into current and noncurrent

Derivative instruments are classified as current or noncurrent, or segregated into short and long term as follows:

- When a Company keeps a derivative as economic hedge (and does not apply the hedge accounting) for a period over 12 months after the balance sheet date, such derivative is classified as noncurrent (or segregated into current and noncurrent portions), in line with the classification of the corresponding item.

- Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item

The derivative instrument is segregated into current and noncurrent portions only when amounts can be reliably allocated.

m) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the assumption that the transaction to sell the asset or to transfer the liability will take place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Company must have access to the principal (or most advantageous) market.

The fair value of an asset or liability is measured based on the assumption that market participants would use to define the price of an asset or liability, assuming that market participants act in their best economic interest.

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A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities that are measured or disclosed at fair value in the individual and consolidated financial statements are classified within the fair value hierarchy, as described below, based on the lowest level input that is significant to the overall fair value measurement:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is either directly or indirectly observable.

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is not observable.

For assets and liabilities recognized in the financial statements on a recurring basis, the Company determines whether there have been transfers among hierarchy levels, revaluing their categorization (based on the lowest level input that is significant to the entire fair value measurement) at the end of each reporting period.

For fair value disclosure purposes, the Company determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and their fair value hierarchy level, as described above.

For the year ended December 31, 2014, there were no transfers between Level 1 and Level 2 fair value assessments. The Company does not have financial instruments with Level 3 fair value assessments (Note 33).

n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a period of time of over 18 months to get ready for its intended use or sale form part of the cost of that asset.

Other borrowing costs are recognized as an expense for the period in which they are incurred. Borrowing costs include interest and other costs incurred by an entity in connection with the borrowing of funds.

o) Interest on equity and dividend

Interest on equity

Brazilian legislation allows companies to pay interest on equity, which is similar to payment of dividend; however, this is deductible for income tax calculation purposes. The amount accrued by the Company in its accounting records in compliance with Brazilian tax law is matched against the financial expenses account in the income statement for the year and, for the presentation of these financial statements, such expense is reversed against a direct charge to equity, resulting in the same accounting treatment adopted for dividend. The distribution of interest on equity to shareholders is subject to withholding income tax at a 15% rate.

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Dividend

Minimum mandatory dividends are presented in balance sheets with legal obligations (provisions in current liabilities). Excess dividends to this minimum, not yet approved by shareholders' meeting, are presented as reserve of dividends in equity. After approval by the shareholders' meeting, excess dividends are transferred to current liabilities, recorded as legal obligations.

p) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and such obligation can be reliably estimated. Provisions are adjusted at balance sheet date considering the probable amount of loss and the nature of each contingency.

Provisions for contingencies are presented at their gross amount, less the corresponding judicial deposits, and are classified as provisions for civil, labor, tax and regulatory contingencies. Judicial deposits are classified as assets if the conditions required for their net presentation with the provision are not available.

Provisions for civil, labor, tax and regulatory legal claims

The Company is party to labor, tax, civil and regulatory administrative and legal proceedings and set up a provision for contingencies whose likelihood of loss was estimated as probable. Assessment of the likelihood of loss includes an evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their relevance in the legal system, as well as the opinion of legal advisers.

Provisions are reviewed and adjusted considering changes in existing circumstances, such as the applicable statutes of limitation, tax audit conclusions, or additional exposures identified based on new matters or court decisions.

Provision for decommissioning of assets

This refers to costs to be incurred due to the return to the owners of the sites (locations intended for tower and equipment installation at leased property) under the same conditions at the time of execution of the initial lease agreement.

These costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to decommissioning of assets. The financial effect of the discount is expensed as incurred and recognized in the income statement as a finance cost. The estimated future costs of demobilization are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Contingent liabilities recognized in a business combination

A contingent liability recognized in business combination is initially measured at fair value.

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q) Taxes

Current taxes

Current tax assets and liabilities for the last and prior years are measured at the expected amount recoverable from or payable to tax authorities. The tax rates and laws used in calculating the amounts referred to above are those in effect at year end. In the balance sheet, current taxes are presented net of prepayments throughout the year.

Current income and social contribution taxes related to items posted directly to equity are recognized in equity. Management periodically assesses the tax position of situations in which tax regulation requires interpretation, and sets up provisions therefore when appropriate.

Deferred taxes

Deferred tax is generated from temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses, to the extent that taxable profit is likely to be available for realization of deductible temporary differences, and unused tax credits and losses are likely to be used, except: (i) when the deferred tax asset related to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction other than a business combination and does not impact, at the transaction date, the book profit or income or loss for tax purposes; and (ii) on deductible temporary differences related to investments in subsidiaries, where deferred tax assets are recognized only to the extent that it is probable that temporary differences will be reversed in the near future and taxable profit will likely be available so that temporary differences can be used.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Derecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized on all temporary tax differences, except: (i) when the deferred tax liability arises from initial recognition of goodwill, or an asset or liability in a transaction other than a business combination, and does not affect book profit or tax income or loss on the transaction date; and (ii) on temporary tax differences related to investments in subsidiaries, in which temporary difference reversal period can be controlled and temporary differences are not likely to be reversed in the near future.

Deferred tax assets and liabilities are measured at the tax rate expected to be applicable for the year the asset will be realized or the liability will be settled, based on tax rates (under the tax law) published as of year-end.

Deferred tax assets and liabilities are not discounted to present value and are classified in the balance sheet as noncurrent, regardless of the expected realization.

The tax effects of items posted directly to equity are also recognized in equity. Deferred tax items are recognized in the statement of comprehensive income or posted directly to equity, according to the transaction from which the deferred tax stems.

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Deferred tax assets and liabilities are stated net if there is a legal or constructive right to offset tax assets against tax liabilities and the deferred taxes are related to the same taxable entity and subject to the same tax authority.

Sales taxes

Revenue from services rendered is subject to State Value-Added Tax (ICMS) or Service Tax (ISS) at the rates in force in each area and to PIS and COFINS taxation on a cumulative basis for revenue from telecommunication services, at 0.65% and 3.00%, respectively. Other revenue earned by the Company, including revenue from resale of goods, on a noncumulative basis, is taxed at 1.65% and 7.60% for PIS and COFINS, respectively, and by ICMS at the rates in force in each State.

Prepayments or recoverable amounts are stated in current or noncurrent assets, based on their estimated realization.

Law No. 12973/14

On May 13, 2014, Law No. 12973/14 was published, as a result from the conversion of Provisional Executive Order No. 627/13 into law. This law governs the tax effects arising from the adjustment of the accounting practices adopted in Brazil to the IFRS, and revokes the Transition Tax Regime (“RTT”), introduced by Law No. 11941/09.

Revenue Procedure No. 1499, of October 15, 2014, published in the Brazilian Official Gazette (DOU) on October 16, 2014, determined that the December 2014 Federal Tax Debt and Credit Return (DCTF) will be the basis for expressing the adoption, for calendar year 2014, of the rules contained in articles 1, 2 and 4 to 70 or rules set forth in articles 76 to 92 of Law No. 12973, of May 13, 2014.

The Company's option to adopt the application of the rules in articles 1, 2 and from 4 to 70 of this law was reported to the Brazilian IRS in the August 2014 DCTF, filed in October 2014, which can be changed or adjusted in the December 2014 DCTF. (Note 27)

r) Other assets and liabilities

An asset is recognized in the balance sheet when its future economic benefits are likely to flow to the Company, and its cost can be reliably measured.

A liability is recognized in the balance sheet when the Company has a legal obligation or obligation resulting from a past event, and will probably require an economic resource to settle it.

Assets and liabilities are presented in the balance sheet based on the current/noncurrent classification. An asset is classified as current when:

- It is expected to be realized or is intended to be sold or used in the ordinary operational cycle;
- It is mainly held for trading purposes;
- It is expected to be realized within 12 months from the reporting period; or
- cash and cash equivalents, unless there are restrictions upon exchange thereof, i.e., when it is used to settle a liability within 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when:

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- It is expected to be settled in the ordinary operational cycle;
- It is mainly held for trading purposes;
- It is expected to be settled within 12 months from the reporting period; or
- There is no unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as noncurrent.

s) Present value adjustment of assets and liabilities

Current and noncurrent monetary assets and liabilities are adjusted to present value when their effect is considered material in relation to the overall financial statements. Present value adjustment is calculated considering contractual cash flows and the explicit, sometimes implicit, interest rates of the corresponding assets and liabilities.

Therefore, interest rates accrued on revenues, expenses and costs associated with these assets and liabilities are discounted with a view to recognizing them on an accrual basis. This interest is subsequently reallocated to financial income and expenses in P&L by using the effective interest method in relation to contractual cash flows. Implicit interest rates applied were determined based on assumptions and are considered accounting estimates.

t) Government grants and assistance

Government grants are recognized when there is reasonable certainty the benefit will be received and that all related conditions will be fulfilled. When the benefit refers to an expense item, it is recognized over the

benefit period, on a systematic basis in relation to the costs which the benefit aims to be offset.

When the Company receives non-monetary benefits, the asset and the benefit are recorded at nominal value and reflected in P&L over the expected useful life of the asset, at equal annual installments. The loan or assistance is initially recognized or measured at fair value. A government grant is measured as the difference between the initial carrying amount of the loan and proceeds therefrom. A loan is subsequently measured in accordance with the accounting policy.

When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant.

The financing lines with the Brazilian Development Bank (BNDES), with interest rates not exceeding those prevailing in the market, under the scope of IAS 20/CPC 7, are recorded at fair value based on market rates. Adjustment arising from the comparison of the amount measured based on the rate agreed upon is accounted for as deferred revenue (Note 20).

u) Revenue recognition

Revenues substantially correspond to value of considerations received or receivable arising from the provision of telecommunications services and sale of goods, and are presented net of taxes, discounts and returns (in case of sale of goods) thereon. Revenues and expenses are computed on an accrual basis.

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Revenue is recognized when it is probable that future economic benefits will flow to the Company, when it can be reliably measured, costs incurred in the transaction can be measured, the risks and rewards have been substantially transferred to the buyer and when specific criteria have been met for every activity of the Company.

The Company assessed its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent, and eventually concluded that it is acting as a principal in all of its revenue arrangements.

Consolidated revenues of the Company comprise basically telecommunication services regarding voice, data and additional telecommunication services that are offered to customers through fixed-price traffic packs (paid on a monthly basis) or based on customers' consumption, remuneration for network usage and sales of goods.

Recognition of revenues from telecommunication services

Revenues from telecommunication services provided are recorded on an accrual basis based on the amounts agreed upon. Local and long-distance calls are billed by the measurement process under the legislation in force. The services billed on fixed monthly amounts are calculated and accounted for on a straight-line basis. Unbilled revenues from the last billing up to the balance sheet date are recognized in the month in which the service is provided.

Revenues related to public phone cards sales and related to pre-paid mobile recharge credits, as well as taxes payable due are deferred and recognized in the income statement to the extent services are effectively provided.

Revenues from equipment lease contracts classified as finance lease agreement are recognized in installation of equipment upon effective transfer of risk. Revenue is recognized at present value of future

minimum payments provided for in the contract.

Revenues from services are basically subject to the following indirect taxes: ICMS or ISS (as applicable), PIS and COFINS.

Recognition of revenue and cost of sales

Revenues and cost of sales (mobile phones, simcards and accessories) are recorded when risks and rewards inherent in such goods are transferred to buyer.

Sales made in own stores are recognized upon sale to end consumer. Revenues and costs of sales made by dealers are recognized in the P&L when the device is activated, limited to 90 days after the date of sale.

Customer loyalty program

The Company has a loyalty points program that enables customers to accumulate points when they pay bills regarding the usage of the services offered. The accumulated points may be exchanged for telephone sets or services, conditional upon obtaining a minimum balance of points by customer. The consideration received is allocated to the cost of sales or services at fair value. The fair value of points is determined by dividing the amount of discount granted by the number of points necessary for the redemption based on the points program. The portion of revenue related to the fair value of the accumulated balance of points generated is deferred and recognized as revenue upon redemption of points.

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The number of points to be accounted for is determined through statistical techniques that consider assumptions and historical data on expected redemption rates, expiration percentage and cancellation of points, among others. These estimates are subject to variations and uncertainties due to changes in the behavior of customers' redemptions (Note 20).

Membership fee and promotional campaigns

Participation fees paid for promotional campaigns by customers of the Company are deferred and recorded in P&L throughout the duration of such campaign.

Agreements combining more than one element

Commercial packages offered by the Company that combine different elements are analyzed to determine whether it is necessary to separate the different elements identified, adopting the recognition criterion that is most adequate to each situation. Total revenue generated by the package sale is distributed among its elements, based upon their relative fair values.

The fair value determination of each element then identified implies the need for complex estimates given the nature of the business. A possible change in fair values estimates could affect the distribution of revenues between components and consequently the deferred revenues

v) Financial income and expenses

These include interest, and monetary and exchange variations arising from short-term investments, derivative transactions, loans, financing, debentures, present value adjustments of transactions that generate monetary assets and liabilities and other financial transactions. These are recognized on an

accrual basis when earned or incurred by the Company.

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available for sale, interest income or expense is recognized using the effective interest rate method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

w) Post-retirement benefit plans

The Company individually sponsors pension funds of post-retirement benefits for active and retired employees, in addition to a multiemployer supplementary retirement plan and health care plan to former employees. Contributions are determined on an actuarial basis and recorded on an accrual basis. Benefit plans are determined based on actuarial evaluations at each year end, in order to ensure that the contributions are sufficient to set up the required reserve for both current and future commitments.

Actuarial liabilities related to defined benefit plans were calculated using the projected unit credit method. Actuarial gains and losses are recognized immediately in equity (in other comprehensive income).

For plans with defined contribution characteristics, the obligation is limited to the payment of contributions, which are recognized in the P&L of the respective years.

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The asset or liability related to defined benefit plan to be recognized in financial statements correspond to the present value of the obligation for the defined benefit (using a discount rate based on long-term National Treasury Notes "NTNs"), less fair value of plan assets that will be used to settle the obligations. Plan assets are assets held by a privately-held supplementary pension plan entity. Plan assets are not available to the Company's creditors and cannot be paid directly to the Company. The fair value is based on information on market prices and, in case of securities quoted, on purchase price disclosed. The value of any defined benefit asset then recognized is limited to the present value of any economic benefits available as a reduction in future plan contribution from the Company.

Actuarial costs recognized in the income statement are limited to the service cost and cost of interest on the defined benefit plan obligation. Any changes in measurement of plan assets and obligations are initially recognized in other comprehensive income, and immediately reclassified to P&L.

x) Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions supported by valuation bases used in accounting estimates. Accounting estimates involved in the preparation of the financial statements were based on both objective and subjective factors, and in line with management's judgment for determination of appropriate amounts to be recorded in the financial statements.

However, the uncertainty involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the criteria inherent in their estimate process.

Significant assumptions concerning sources of uncertainty in future estimates and other significant sources of estimation uncertainty at the balance sheet date, involving a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are as follows:

Impairment of non-financial assets

Impairment loss exists when the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. The calculation of fair value less cost to sell is based on information available on transactions for sale of similar assets or market prices less additional costs to dispose of the asset. The calculation of value in use is based on the discounted cash flow model. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as expected future cash receipts and growth rate used for extrapolation purposes.

The Company periodically analyzes the performance of the defined CGUs in order to identify possible impairment of goodwill. Determination of the recoverable amount of the CGU to which goodwill is allocated also includes the use of assumptions and estimates and requires a significant level of judgment and criterion.

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Post-retirement benefit plans

The cost of pension plans with defined post-employment and other health care benefits and the present value of pension plan obligations are determined using actuarial valuation methods. The actuarial valuation involves the use of assumptions about discount rates, future salary increases, mortality rates and future increases in retirement and pension benefits. The defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis.

The mortality rate is based on actuarial tables available in the country. Future increases in salaries and retirement and pension benefits are based on expected future inflation rates for the country.

Fair value of financial instruments

If there is not a quoted market price for the financial assets and liabilities stated in the balance sheet, fair value must be measured using another valuation technique, including the discounted cash flow method. Data for these methods are based on those adopted in the market, whenever possible. However, when this is not feasible, certain level of judgment is required for fair value determination. Judgment includes considerations about the data used, such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors can affect the fair value reported in financial instruments.

Property, plant and equipment, and finite-lived intangible assets

The accounting treatment of investment in fixed and intangible assets includes estimating useful life period for depreciation purposes and the fair value at the date of acquisition, particularly for assets acquired in business combinations.

Useful life determination requires estimates regarding the expected technological developments and alternative uses of assets. The hypotheses related to the technological aspect and its future development imply a significant level of analysis, considering the difficulties in forecasting time and nature of future technological changes.

Where impairment is identified in the amount of tangible and intangible assets, an adjustment to such amount is recorded in the income statement for the period. The need to record impairment loss is determined by means of estimates that include, among others, the analysis of the possible impairment causes and the estimated amount thereof. In this regard, factors such as technological obsolescence, suspension of certain services and other changes are also considered in circumstances that demonstrate the need to record a possible impairment.

Revenue recognition – Customer loyalty program

The Company estimates the fair value of points awarded under the customer loyalty program by applying statistical techniques. Inputs to the model include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. As points issued under the program do not expire, such estimates are subject to significant uncertainty.

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Taxes

There are uncertainties related to the interpretation of complex tax regulations and to the amount and time of future taxable profits. The Company set up provisions, based on applicable estimates, for possible consequences of audits conducted by tax authorities with jurisdiction over it. The amount of these provisions is based on various factors, such as past tax audit experience and different interpretations of tax regulations by the taxable entity and by the relevant tax authority. These different interpretations may arise in a wide variety of matters, depending on the conditions prevailing in the respective domicile of the Company.

The Company evaluates the recoverability of deferred tax asset based on estimates of future profits. This recoverability ultimately depends on the ability of the Company to generate taxable profits over the period in which the deferred tax asset is deductible. The analysis considers the reversal period of deferred tax liabilities, as well as estimates of taxable profits, based on updated internal projections reflecting the latest trends.

Determining the proper classification of the tax items depends on several factors, including an estimate of the period and the realization of the deferred tax asset and the expected date of payments of these taxes. The actual flow of receipt and shipment of income tax could differ from estimates made by the Company, as a result of changes in tax laws or of unexpected future transactions that may impact tax balances.

Provisions for tax, labor, civil and regulatory proceedings

Provisions are recognized when the Company has a present obligation arising from a past event, settlement of which requires an outflow of resources rated as probable and can be reliably estimated. This obligation can be legal or constructive, derived from, among other factors, regulations, contracts, customary practices or public commitments that expose third parties to a valid expectation that the Company will assume certain responsibilities. The determination of the provision is based on the best estimate of the disbursement required to settle the corresponding obligation, considering the information available as of the closing date, including the opinion of independent experts, such as legal advisers.

y) Functional and reporting currency

The Company's functional and reporting currency is the Brazilian real. Transactions in foreign currency were translated at the exchange rate in force as of the date the transaction. Assets and liabilities stated in foreign exchange were translated at the exchange rate in force at the balance sheet date. The exchange rate variations arising from transactions in foreign currencies are recognized in P&L as financial income or expenses. Gains and losses due to conversion of foreign investments are recognized in the statement of comprehensive income.

z) Translation of transactions denominated in foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency (real) at the exchange rate (fx rate) in force as of the transaction date and subsequently re-measured based on the fx rate effective as of the reporting date which, at December 31, 2014 was: US\$1.00 = R\$2.6562, €1.00 = R\$3,224892, and as of December 31, 2013, was: US\$1.00 = R\$2.3426, €1.00 = R\$3.23068. Gains and losses resulting from the translation of these assets and liabilities between the foreign exchange rate prevailing at the transaction and reporting dates are recognized in the income statement.

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aa) Employee profit sharing

The Company has obligations arising from employment contracts, recognizing these provisions during the year. Provisions are recorded to recognize the expense regarding employee profit sharing. These provisions are calculated based on qualitative and quantitative goals set by management and accounted for in specific accounts according to their function in groups of Cost of services, Selling expenses and General and administrative expenses.

ab) Share-based payments

The Company measures the cost of transactions settled with employees and officers based on shares issued by parent company Telefônica S.A., by reference to the fair value of the shares at the date at which they are granted, using the binomial valuation model. This fair value is charged to the income statement over the period until the vesting date.

ac) Treasury stocks

These are own equity instruments that were reacquired (treasury stock), recognized at cost, within equity. No gains or losses are recognized in the income statement upon purchase, sale, issue or cancellation of the Company's own shares.

ad) Segment information

Business segments are defined as components of a company for which separate financial information is available and regularly assessed by the operational decision-taking professional in decisions on how to

allocate funds to an individual segment and in the assessment of segment performance. Considering that: (i) all officers and managers' decisions are based on consolidated reports; (ii) the Company and subsidiary's mission is to provide its customers with quality telecommunications services; and (iii) all decisions related to strategic planning, finance, shopping, short- and long-term investments are made on a consolidated basis, the Company and subsidiary operate in a single operating segment, namely the provision of telecommunications services.

ae) Statement of cash flows and statement of value added

The statement of cash flows was prepared in accordance with IAS 7/CPC 03 – Statement of Cash Flows using the indirect method, and reflects the changes in cash for the years reported.

Regarding of the 700 MHz license acquisition on December 08, 2014, in the total amount of R\$2,770,320 (note 1 b.2), R\$1,112,818 had no impact in cash for the year ended December 31, 2014 considering that it will be paid in installments.

The statement of value added (SVA) is shown as supplementary information, in compliance with Brazilian Corporation Law and was prepared in accordance with CPC09 – Statement of value added. The purpose of the statement of value added is to disclose the wealth generated by the Company during the year and the wealth distribution among its stakeholders.

4) CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
Cash and banks	63,136	101,094	64,010	101,921
Short-term investments	3,772,168	6,210,205	4,628,679	6,442,015
Total	3,835,304	6,311,299	4,692,689	6,543,936

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Short-term investments basically correspond to Bank Deposit Certificates (CDB), which are pegged to the Interbank Deposit Certificate (CDI) rate variation, are highly liquid and are kept with first-tier financial institutions.

5) TRADE ACCOUNTS RECEIVABLE, NET

	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
Billed amounts	4,957,574	3,982,200	5,538,184	4,487,412
Unbilled amounts	1,868,376	1,751,226	1,997,798	1,885,908
Interconnection amounts	991,752	872,678	991,752	859,894
Accounts receivable to related parties (Note 29)	157,306	129,062	115,048	98,353
Trade accounts receivable – gross	7,975,008	6,735,166	8,642,782	7,331,567
Estimated impairment losses	(1,313,956)	(1,033,665)	(1,619,316)	(1,271,622)
Total	6,661,052	5,701,501	7,023,466	6,059,945
Current	6,470,764	5,541,023	6,724,061	5,802,859
Noncurrent	190,288	160,478	299,405	257,086

Consolidated balances of noncurrent trade accounts receivable included:

- At December 31, 2014, R\$190,288 (R\$160,478 at December 31, 2013), referring to the business model of resale of goods to legal entity, receivable within 24 months. At December 31, 2014, the impact of the adjustment to present value was R\$29,872 (R\$ 18,174 at December 31, 2013).

- At December 31, 2014, R\$109,117 (R\$ 96,608 at December 31, 2013) referring to "Soluciona TI", traded by TData, which consists in lease of IT equipment to small and medium-size companies and receipt

of fixed lease payments over the contractual term. Considering the contractual terms, the product was classified as Finance Lease.

The aging list of trade accounts receivable, net of the impairment, is as follows:

	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
Falling due	4,853,376	4,131,549	5,107,714	4,398,791
Overdue from 1 to 30 days	914,709	756,787	970,086	795,389
Overdue from 31 to 60 days	318,552	266,192	328,367	289,783
Overdue from 61 to 90 days	207,542	162,436	243,981	166,105
Overdue from 91 to 120 days	75,895	59,244	73,962	62,122
Overdue for more than 120 days	290,978	325,293	299,356	347,755
Total	6,661,052	5,701,501	7,023,466	6,059,945

No customer accounted for more than 10% of net trade accounts receivable as of December 31, 2014 and 2013.

Changes in estimated impairment of trade accounts receivable are as follows:

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Years ended December 31, 2014 and 2013

(In thousands of reais, unless otherwise stated)

	Company	Consolidated
Balance at 12.31.2012	(614,566)	(1,163,047)
Net additions to estimated losses for the year (Note 24)	(480,373)	(741,274)
Write-offs for the year	465,404	632,699
Merger/spin-off at 07.01.13	(404,130)	-
Balance at 12.31.2013	(1,033,665)	(1,271,622)
Net additions to estimated losses for the year (Note 24)	(832,184)	(896,336)
Write-offs for the year	551,893	548,642
Balance at 12.31.2014	(1,313,956)	(1,619,316)

Current and noncurrent trade accounts receivable referring to finance lease of product "Solucion TI" include the following effects:

	Consolidated	
	12.31.14	12.31.13
Present value of receivables	497,523	428,371
Unrealized financial income	7,522	7,058
Gross accounts receivable	505,045	435,429
Provision for impairment	(240,191)	(192,786)
Net accounts receivable	264,854	242,643
Current	155,737	146,035
Noncurrent	109,117	96,608

At December 31, 2014, the aging list of trade accounts receivable, gross for "Solucion TI" was:

	Consolidated	
	Trade accounts receivable, gross	Present value
Falling due up to one year	271,401	271,401
Falling due up to five years	233,644	226,122

Total		505,045	497,523
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There are no unguaranteed net book values resulting in benefits to the lessor or contingent payments recognized as revenue for the year.

6) INVENTORIES, NET

	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
Consumer materials	54,847	55,431	55,820	58,492
Materials for resale (a)	441,793	459,949	464,718	498,803
Other inventory items	7,749	6,481	7,749	6,481
Total gross	504,389	521,861	528,287	563,776
Provision for impairment and obsolescence	(45,901)	(52,275)	(48,486)	(58,161)
Total	458,488	469,586	479,801	505,615

(a) Includes, among others, mobile telephones, IT equipment and simcard (chip) in stock.

Changes in estimated impairment losses and inventory obsolescence are as follows:

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Years ended December 31, 2014 and 2013

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	Company	Consolidated
Balance at 12.31.12	(24,908)	(55,776)
Addition to estimated losses for the year	(14,475)	(29,247)
Reversal of estimated losses for the year	21,785	26,862
Merger/spin-off at 07.01.13	(34,677)	-
Balance at 12.31.13	(52,275)	(58,161)
Addition to estimated losses for the year	(27,152)	(31,012)
Reversal of estimated losses for the year	33,526	40,687
Balance at 12.31.14	(45,901)	(48,486)

The cost of sales includes additions/reversals of estimated impairment losses and inventory obsolescence, and are included in the cost of sales (Note 24).

7) DEFERRED TAXES AND TAXES RECOVERABLE**7.1) Taxes recoverable**

	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
ICMS (a)	1,686,062	1,908,754	1,696,578	1,911,703
Income and social contribution taxes (b)	597,718	374,096	601,515	377,704
Taxes withheld at source (c)	115,445	174,015	134,795	188,659
PIS and COFINS	85,662	62,449	86,447	63,816
Other	18,722	17,871	23,532	18,468
Total	2,503,609	2,537,185	2,542,867	2,560,350
Current	2,163,404	2,168,797	2,202,662	2,191,962
Noncurrent	340,205	368,388	340,205	368,388

(a) This includes credits arising from acquisition of property and equipment (subject to offsetting in 48 months), in ICMS refund request, which was paid under invoices later cancelled, for the rendering of

services, tax substitution, rate difference, among others.

(b) These mainly refer to prepayments of income and social contribution taxes, which will be offset against federal taxes to be determined in the future.

(c) These refer to credits on Withholding Income Tax (IRRF) on short-term investments, interest on equity and others, which are used as deduction in operations for the period and social contribution tax withheld at source on services provided to public agencies.

7.2) Deferred taxes

Deferred income and social contribution tax assets are computed considering expected generation of taxable profit, which were based on a technical feasibility study, approved by the Board of Directors.

Deferred taxes were determined considering future realization, as follows:

(a) Income and social contribution tax losses: this represents the amount recorded, which, according to the tax legislation in Brazil, can be offset to the limit of 30% of the tax bases computed for the following years, with no expiry date.

(b) Merged tax credit: Represented by tax benefits arising from corporate restructuring of goodwill for expected future profitability, whose tax use follows the limit set forth in tax legislation.

(c) Income and social contribution taxes on temporary differences: amounts will be realized upon payment of provisions, effective impairment loss on trade accounts receivable, or realization of inventories, as well as upon reversal of other provisions.

Significant components of deferred income and social contribution taxes are as follows:

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NOTES TO FINANCIAL STATEMENTS

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	Balances at 12.31.12	Income statements	Equity (Comprehensive income)	Company Merger / spin-off at 07/01/13	Balances at 12.31.13	Income statements	Equity (Comprehensive income)
Deferred tax							
assets							
Income and social contribution tax losses (a)	21,290	101,031	-	-	122,321	(52,157)	-
Merged tax credit (b)	9,461	(9,461)	-	-	-	-	-
Income and social contribution taxes on temporary differences (c)							
Provisions for labor, tax and civil contingencies	805,557	162,661	-	354,026	1,322,244	132,105	-
Post-employment retirement plans	126,605	9,854	-	7,078	143,537	12,689	-
Provision for impairment - accounts receivable	93,442	24,908	-	122,853	241,203	62,729	-
Provision for modem and other PP&E item losses	7,467	(6,152)	-	163,203	164,518	3,175	-
Profit sharing	34,888	11,784	-	24,615	71,287	73,772	-
Accelerated accounting depreciation	128,070	(74,296)	-	100,407	154,181	(138,806)	-
	8,469	(2,070)	-	4,485	10,884	(870)	-

Provision for impairment - inventories							
Provision for customer loyalty program	-	729	-	30,470	31,199	309	-
Customer portfolio and trademarks (Note 27)	-	-	-	-	-	311,141	-
Trade accounts payable and other provisions	62,314	79,216	-	196,928	338,458	98,341	-
Income and social contribution taxes on other temporary differences	108,448	(61,068)	(36)	110,644	157,988	(23,580)	-
Total deferred tax assets	1,406,011	237,136	(36)	1,114,709	2,757,820	478,848	-
<u>Deferred tax liabilities</u>							
Merged tax credit (b)	(269,514)	(68,021)	-	-	(337,535)	-	-
Income and social contribution taxes on temporary differences (c)							
Technology Innovation Law Exchange variation	(209,185)	115,109	-	(214,414)	(308,490)	52,036	-
Customer portfolio (Note 27)	(546,383)	84,513	-	-	(461,870)	461,870	-
Trademarks and patents (Note 27)	(508,178)	28,630	-	-	(479,548)	479,548	-
Licenses	(399,878)	(319,902)	-	-	(719,780)	(268,116)	-
Effects of goodwill generated upon merger of Vivo Part.	(344,927)	(223,411)	-	-	(568,338)	(147,200)	-
Vivo Part. Goodwill	(266,870)	(213,496)	-	-	(480,366)	(208,711)	-
Income and social	(74,344)	26,052	-	(76,235)	(124,527)	7,605	(92,542)

contribution taxes on other temporary differences							
Total deferred tax liabilities	(2,622,662)	(567,143)		- (290,649)	(3,480,454)	377,032	(92,542)
Total noncurrent assets (liabilities), net	(1,216,651)	(330,007)		(36)	824,060	(722,634)	855,880
Total noncurrent assets (liabilities), net	(1,216,651)	(330,007)		(36)	824,060	(722,634)	855,880
Presented in balance sheets as follows:							
Noncurrent deferred tax assets, net		-				-	
Noncurrent deferred tax liabilities, net	(1,216,651)				(722,634)		

	Consolidated							
	Balances	Income	Equity	Balances	Income	Equity	Balance	
	at 12.31.12	statements	(Comprehensive income)	at 12.31.13	statements	(Comprehensive income)	at 12.31.13	
Deferred tax assets								
Income and social contribution tax losses (a)	21,290	241,625	-	262,915	(169,369)	-	93,546	
Merged tax credit (b)	9,461	(9,461)	-	-	-	-	-	
Income and social contribution taxes on temporary differences (c)								
Provisions for labor, tax and civil contingencies	1,104,065	223,223	-	1,327,288	132,550	-	1,459,838	
Post-employment retirement plans	133,371	10,166	-	143,537	12,688	-	156,225	
Provision for impairment - accounts	169,434	76,122	-	245,556	69,516	-	315,072	

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receivable							
Provision for modem and other PP&E item losses	210,107	(43,933)	-	166,174	3,532	-	169,706
Profit sharing	62,218	9,730	-	71,948	73,881	-	145,829
Accelerated accounting depreciation	421,768	(267,587)	-	154,181	(138,806)	-	15,375
Provision for impairment - inventories	13,951	(1,066)	-	12,885	(1,992)	-	10,893
Provision for customer loyalty program	28,168	3,031	-	31,199	308	-	31,507
Customer portfolio and trademarks (Note 27)	-	-	-	-	311,141	-	311,141
Trade accounts payable and other provisions	290,199	108,757	-	398,956	103,001	-	501,957
Income and social contribution taxes on other temporary differences	177,382	(19,143)	(926)	157,313	(23,214)	-	134,099
Total deferred tax assets	2,641,414	331,464	(926)	2,971,952	373,236	-	3,345,188
<u>Deferred tax liabilities</u>							
Merged tax credit (b)	(269,514)	(68,021)	-	(337,535)	-	-	(337,535)
Income and social contribution taxes on temporary differences (c)							
Technology Innovation Law	(416,700)	108,210	-	(308,490)	52,036	-	(256,454)
Exchange variation	(3,383)	3,383	-	-	-	-	-
Customer portfolio (Note 27)	(546,383)	84,513	-	(461,870)	461,870	-	-
Trademarks and patents (Note 27)	(508,178)	28,630	-	(479,548)	479,548	-	-
Licenses	(399,878)	(319,902)	-	(719,780)	(268,116)	-	(987,896)

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Effects of goodwill generated upon merger of Vivo Part.	(344,927)	(223,411)	-	(568,338)	(147,200)	-	(715,538)
Vivo Part. Goodwill	(266,870)	(213,496)	-	(480,366)	(208,711)	-	(689,077)
Income and social contribution taxes on other temporary differences	(74,344)	(54,021)	-	(128,365)	7,036	(92,542)	(213,871)
Total deferred tax liabilities	(2,830,177)	(654,115)	-	(3,484,292)	376,463	(92,542)	(3,200,371)
Total noncurrent assets (liabilities), net	(188,763)	(322,651)	(926)	(512,340)	749,699	(92,542)	144,811
Presented in balance sheets as follows:							
Noncurrent deferred tax assets, net	1,027,888			210,294			144,811
Noncurrent deferred tax liabilities, net	(1,216,651)			(722,634)			

The following table presents deferred income and social contribution taxes related to items debited from or credited to equity for the years ended December 31, 2014 and 2013.

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	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
Non-realized losses on available-for-sale investment	2,599	4,578	2,599	4,578
Actuarial losses and effect of the asset ceiling on plan surplus	18,817	(6,458)	18,817	(7,348)
Gain (losses) on derivative operations	(113,958)	1,844	(113,958)	1,844
Total	(92,542)	(36)	(92,542)	(926)

Expected terms for realization of deferred taxes, net, are presented below. Amounts are based on projections that may be changed in the future.

	2015	2016	2017	2018	2019	2020 em diante	Total
Company	309,820	283,523	164,059	158,244	173,492	(1,048,434)	40,704
Consolidated	403,481	288,402	164,438	158,623	174,326	(1,044,453)	144,817
Total							

8) JUDICIAL DEPOSITS AND GARNISHMENTS

In some situations, in connection with a legal requirement or presentation of guarantees, judicial deposits are made to secure the continuance of the claims under discussion. These judicial deposits may be required for claims whose likelihood of loss was analyzed by the Company, grounded on the opinion of its legal advisers as a probable, possible or remote loss.

	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
Judicial deposits				
Labor	1,008,745	1,011,346	1,016,019	1,016,832
Tax	2,647,635	2,348,179	2,665,757	2,364,913
Civil and regulatory (a)	935,842	834,857	936,782	835,966
Total	4,592,222	4,194,382	4,618,558	4,217,711

Garnishments	124,730	96,130	126,667	97,572
Total	4,716,952	4,290,512	4,745,225	4,315,283
Current	202,169	166,928	202,169	166,928
Noncurrent	4,514,783	4,123,584	4,543,056	4,148,355

(a) At December 31, 2013, the Company reclassified the amount of R\$ 37,237 between the groups “Judicial deposits and garnishments” and “Authorization licenses” in current assets and liabilities, respectively.

At December 31, 2014, the Company had a number of tax-related judicial deposits, reaching the consolidated amount of R\$2,665,757 (R\$2,364,913 at December 31, 2013). In Note 19, we provide further details on issues arising from the main judicial deposits.

A brief description of the main tax-related judicial deposits is as follows:

- Contribution tax on gross revenue for social integration Program (PIS) and Contribution tax on gross revenue for social security financing (COFINS)

The Company and its subsidiary were involved in disputes related to: (i) claim filed for overpayment of tax credits, not recognized by tax authorities; (ii) tax debt arising from underpayment due to differences in ancillary returns (Federal Tax Debt and Credit Return – DCTF); and (iii) disputes referring to changes in rates and increase in tax bases introduced by Law No. 9718/98.

At December 31, 2014, consolidated judicial deposits amounted to R\$33,040 (R\$31,162 as of December 31, 2013).

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NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

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- Social Contribution Tax for Intervention in the Economic Order (CIDE)

The Company is involved in legal disputes for the exemption of CIDE levied on offshore remittances of funds arising from agreements for the transfer of technology, brand and software licensing, etc.

At December 31, 2014, consolidated judicial deposits amounted to R\$153,759 (R\$144,684 as of December 31, 2013).

- Telecommunications Inspection Fund (FISTEL)

ANATEL collects Installation Inspection Fee (TFI) on extension of licenses granted and on radio base stations, mobile stations and radio links. Such collection results from the understanding of ANATEL that said extension would be a triggering event of TFI and that mobile stations, even if owned by third parties, are also subject to TFI. The Company and its subsidiary challenge aforesaid fee in court..

At December 31, 2014, consolidated judicial deposits amounted to R\$929,880 (R\$864,487 as of December 31, 2013).

- Withholding income tax (IRRF)

The Company is involved in disputes related to: (i) exemption of IRRF payment on offshore remittances for out-coming traffic; (ii) exemption of IRRF payment on interest on equity recognized; and (iii) IRRF levied on earnings from rentals and *royalties*, wage labor and fixed-income investments.

At December 31, 2014, consolidated judicial deposits amounted to R\$63,295 (R\$59,343 as of December 31, 2013).

- Corporate Income Tax (IRPJ)

The Company is involved in disputes related to: (i) debts stemming from offsetting of IRPJ overpayments not recognized by the Brazilian IRS; and (ii) requirement of IRPJ estimates and lack of payment – debts in the integrated system of economic and tax information (SIEF); and (iii) underpayment of IRPJ.

At December 31, 2014, consolidated judicial deposits amounted to R\$30,325 (R\$28,456 as of December 31, 2013).

- Contribution to Empresa Brasil de Comunicação (EBC)

Sinditelebrasil (Union of Telephony and Mobile and Personal Services) is challenging in court, on behalf of its members, the Contribution to Foster Public Radio Broadcasting payable to EBC, introduced by Law No. 11652/2008. The Company and its subsidiary, as union members, made judicial deposits referring to that contribution.

At December 31, 2014, consolidated judicial deposits amounted to R\$672,593 (R\$514,127 as of December 31, 2013).

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Years ended December 31, 2014 and 2013

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- Social Security, Work Accident Insurance (SAT) and Funds to Third Parties (INSS)

The Company is involved in disputes related to: (i) SAT and funds to third parties (INCRA and SEBRAE); (ii) joint responsibility for contract labor; (iii) difference in SAT rate (from 1% to 3%); and (iv) gifts.

At December 31, 2014, consolidated judicial deposits amounted to R\$102,820 (R\$96,736 as of December 31, 2013).

- Unemployment Compensation Fund (FGTS)

The Company is involved in a legal discussion aiming to not to pay surtax of 0.5% and 10% for FGTS introduced by Supplementary Law No. 110/2001 levied on deposits made by employers (the proceedings did not result in any reduction of FGTS deposits mad by the Company on behalf of its employees).

At December 31, 2014, consolidated judicial deposits amounted to R\$76,459 (R\$70,697 as of December 31, 2013).

- Tax on Net Income (ILL)

The Company is involved in a legal discussion to offset amounts unduly paid for ILL purposes against future IRPJ payments.

On December 19, 2013, the Company settled the debt under discussion by including it in the Federal Tax Recovery Program (REFIS), using the judicial deposit then restricted. The Company is now awaiting conversion into income by the Federal Government.

At December 31, 2014, consolidated judicial deposits amounted to R\$54,723 (R\$51,648 as of December 31, 2013).

- Universal Telecommunication Services Fund (FUST)

The Company and its subsidiary petitioned for an injunction in order to have their right declared not to include expenses with interconnection (ITX) and Industrial Use of Dedicated Line (EILD) in FUST tax base, according to Abridgment No. 7, of December 15, 2005, as it does not comply with the provisions contained in sole paragraph of article 6 of Law No. 9998, of August 17, 2000.

At December 31, 2014, consolidated judicial deposits amounted to R\$394,489 (R\$371,373 as of December 31, 2013).

- State Value-Added Tax (ICMS)

The Company is involved in disputes related to: (i) ICMS stated but not paid; (ii) ICMS not levied on communication in default; (iii) fine for late voluntary payment of ICMS; (iv) ICMS supposedly levied on access, adhesion, enabling, availability and use of services, as well as supplementary services and additional facilities; (v) right to credit from the acquisition of goods for the property and equipment and electric energy; and (vi) activation cards for pre-paid services; and (vii) disallowance of ICMS credit referring to agreement 39.

At December 31, 2014, consolidated judicial deposits amounted to R\$97,278 (R\$38,259 as of December 31, 2013).

Telefônica Brasil S. A.**NOTES TO FINANCIAL STATEMENTS****Years ended December 31, 2014 and 2013****(In thousands of reais, unless otherwise stated)**

- Other taxes, charges and contributions

The Company is involved in disputes related to: (i) Service Tax (ISS) on non-core services; (ii) Municipal Real Estate Tax (IPTU) not subject to exemption; (iii) municipal inspection, operation and publicity charges; (iv) land use fee; (v) social security contributions related to supposed failure to withhold 11% on several invoices, bills and receipts or service providers engaged for workforce assignment; and (vi) Public Price for Numbering Resource Management (PPNUM) by ANATEL.

At December 31, 2014, consolidated judicial deposits amounted to R\$57,096 (R\$93,941 as of December 31, 2013).

9) PREPAID EXPENSES

	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
Advertising and publicity	198,758	167,873	198,758	167,873
Rent	45,318	35,168	45,318	35,168
Insurance	33,594	29,212	35,574	29,733
Financial charges	8,426	11,568	8,426	11,568
Software maintenance, taxes and other	38,817	35,801	41,698	38,308
Total	324,913	279,622	329,774	282,650
Current	300,567	254,743	303,551	257,286
Noncurrent	24,346	24,879	26,223	25,364

10) OTHER ASSETS

	Company		Consolidated	
	12.31.14	12.31.13	12.31.14	12.31.13
Receivables from suppliers	114,422	139,563	121,615	139,563
Related-party receivables (Note 29)	318,041	297,198	73,042	97,748
Advances to employees and suppliers	49,827	64,101	50,981	64,991
Subsidy on handset sales	45,850	55,716	45,850	55,716
Pension plan surplus (Note 32)	14,515	17,769	14,653	17,909
Other realizable assets	87,068	86,492	87,280	92,037
Total	629,723	660,839	393,421	467,964
Current	535,020	533,272	298,496	340,171
Noncurrent	94,703	127,567	94,925	127,793

11) INVESTMENTS

A summary of significant financial data of Company investees is as follows.

a) Investee information

The following table presents investee information, considering the equity interest held by the Company.

Telefônica Brasil S. A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

(In thousands of reais, unless otherwise stated)

	At December 31, 2014				At December 31, 2013			
	Wholly-owned subsidiary	Jointly-controlled subsidiaries			Wholly-owned subsidiary	Jointly-controlled subsidiaries		
	TData	Cia ACT	Cia AIX	Aliança Atlântica	TData	Cia ACT	Cia AIX	
<u>Equity interest</u>	100.00%	50.00%	50.00%	50.00%	100.00%	50.00%	50.00%	
<u>Summary of balance sheets:</u>								
Current assets	1,749,933	11	12,728	136,350	1,090,339	11	10,500	
Noncurrent assets	335,735	-	12,134	-	420,253	-	12,400	
Total assets	2,085,668	11	24,862	136,350	1,510,592	11	22,900	
Current liabilities	883,906	1	3,232	92	688,480	1	2,900	
Noncurrent liabilities	48,611	-	4,546	-	43,823	-	6,000	
Equity	1,153,151	10	17,084	136,258	778,289	10	13,900	
Total liabilities and equity	2,085,668	11	24,862	136,350	1,510,592	11	22,900	
Investment book value	1,153,151	5	8,542	68,129	778,289	5	6,900	
<u>Summary of income statements:</u>								
Net operating income	2,184,241	62	51,077	-	1,253,031	61	32,800	
Cost of services provided	(1,066,114)	-	(31,530)	-	(965,787)	-	(29,000)	
Selling expenses	(111,780)	-	-	-	(100,585)	-	-	
General and administrative expenses	(30,253)	(61)	(5,782)	(129)	(43,173)	(60)	(5,900)	
Other operating income (expenses), net	29,410	(1)	1,569	-	(13,944)	(1)	(105,800)	
Financial income (expenses), net	110,104	-	1,285	275	21,350	-	800	
Income (loss) before taxes	1,115,608	-	16,619	146	150,892	-	(107,000)	
Income and social contributions taxes	(379,920)	-	(2,885)	-	107,871	-	(3,400)	
Net income (loss) for the year	735,688	-	13,734	146	258,763	-	(110,400)	
Book value of net income (loss) for the year, recognized as equity pickup	735,688	-	6,867	73	258,763	-	(55,200)	

b) Changes in investments

	Balances at 12.31.13	Equity pickup	Dividend and interest on equity declared and approved	Other comprehensive income	Balances at 12.31.14
<u>Equity investments</u>	853,866	742,628	(366,116)	(551)	1,229,827
<u>Wholly-owned subsidiaries</u>	778,289	735,688	(360,826)	-	1,153,151
TData	778,289	735,688	(360,826)	-	1,153,151
<u>Jointly controlled entities</u>	75,577	6,940	(5,290)	(551)	76,676
Aliança	68,607	73	-	(551)	68,129
AIX	6,965	6,867	(5,290)	-	8,542
ACT	5	-	-	-	5
Goodwill (a)	212,058	-	-	-	212,058
Other investments	10,772	-	-	(7,643)	3,129
Other investments (b)	10,772	-	-	(7,643)	3,129
Total investments in Company	1,076,696	742,628	(366,116)	(8,194)	1,445,014
Aliança	68,607	73	-	(551)	68,129
AIX	6,965	6,867	(5,290)	-	8,542
ACT	5	-	-	-	5
Other investments (b)	10,772	-	-	(7,643)	3,129
Total investments in consolidated	86,349	6,940	(5,290)	(8,194)	79,805

Telefônica Brasil S. A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

(In thousands of reais, unless otherwise stated)

	Balances at 12.31.12	Additions	Equity pickup	Dividend and interest on equity declared and approved	Other comprehensive income	Merger / spin-off as of 07.01.13	Balances at 12.31.13
Equity investments	11,328,398	91,050	1,913,508	(2,120,289)	8,743	(10,367,544)	853,866
Wholly-owned subsidiaries	11,209,200	91,050	1,968,658	(2,120,289)	(2,786)	(10,367,544)	778,289
A. Telecom	640,768	-	50,927	-	(36)	(691,659)	-
TData	305,335	20,000	258,763	(61,456)	1,731	253,916	778,289
TST	163,128	-	(52,915)	-	-	(110,213)	-
Vivo	10,040,496	-	1,740,186	(2,058,833)	(1,048)	(9,720,801)	-
GTR-T	1,861	-	1,129	-	-	(2,990)	-
Lemontree	11,404	50	(2,957)	-	-	(8,497)	-
CaTV	42,097	68,000	(31,383)	-	(3,078)	(75,636)	-
Sul Paraná	4,111	3,000	4,908	-	(355)	(11,664)	-
Jointly controlled entities	119,198	-	(55,150)	-	11,529	-	75,577
Aliança	57,010	-	68	-	11,529	-	68,607
AIX	62,183	-	(55,218)	-	-	-	6,965
ACT	5	-	-	-	-	-	5
Goodwill (a)	212,058	-	-	-	-	-	212,058
Other investments	23,683	(148)	-	-	(13,465)	702	10,772
Other investments (b)	23,683	(148)	-	-	(13,465)	702	10,772
Total investments in Company	11,564,139	90,902	1,913,508	(2,120,289)	(4,722)	(10,366,842)	1,076,696
Aliança	57,010	-	68	-	11,529	-	68,607
AIX	62,183	-	(55,218)	-	-	-	6,965
ACT	5	-	-	-	-	-	5
Other investments (b)	23,683	(148)	-	-	(13,465)	702	10,772
	142,881	(148)	(55,150)	-	(1,936)	702	86,349

**Total investments
in consolidated**

(a) Goodwill from partial spin-off of the company Spanish and Figueira, which was reversed to the Company upon merger with Telefonica Data Brasil Holding S.A. (TDBH) in 2006.

(b) Other investments (tax incentives and shareholding) are measured at fair value.

12) PROPERTY, PLANT AND EQUIPMENT, NET12.a) BreakdownAt December 31, 2014

	PP&E Cost	Company Accumulated depreciation	Net balance	PP&E Cost	Consolidated Accumulated depreciation	Net balance
Switching equipment	17,140,731	(14,599,055)	2,541,676	17,147,961	(14,606,044)	2,541,917
Transmission equipment and media	37,199,508	(26,990,931)	10,208,577	37,200,161	(26,991,399)	10,208,762
Terminal equipment/modems	10,838,174	(9,227,487)	1,610,687	10,882,788	(9,254,451)	1,628,337
Infrastructure	13,486,180	(10,000,989)	3,485,191	13,497,058	(10,010,123)	3,486,935
Land	314,350	-	314,350	314,350	-	314,350
Other	3,394,231	(2,722,927)	671,304	3,549,258	(2,833,705)	715,553
Provision for loss	(156,592)	-	(156,592)	(156,728)	-	(156,728)
Fixed assets in progress	1,706,538	-	1,706,538	1,714,738	-	1,714,738
Total	83,923,120	(63,541,389)	20,381,731	84,149,586	(63,695,722)	20,453,864

At December 31, 2013

	PP&E Cost	Company Accumulated depreciation	Net balance	PP&E Cost	Consolidated Accumulated depreciation	Net balance
Switching equipment	16,544,122	(14,179,182)	2,364,940	16,551,351	(14,186,061)	2,365,290
Transmission equipment and media	34,246,583	(25,814,277)	8,432,306	34,247,236	(25,814,693)	8,432,543
Terminal equipment/modems	10,732,328	(9,276,479)	1,455,849	10,763,473	(9,295,416)	1,468,057
Infrastructure	12,949,046	(9,482,838)	3,466,208	12,959,925	(9,491,430)	3,468,495
Land	314,558	-	314,558	314,558	-	314,558
Other	3,181,239	(2,582,931)	598,308	3,277,142	(2,682,185)	594,957

Provision for loss
Fixed assets in
progress

(168,124) -

(168,124) (169,979) -

(169,979)